**Circular Flow of Income:**

* Circular Flow of Income is a simplified model of the economy that shows the \_\_\_\_\_\_\_\_\_ of money through the economy

**GDP:**

* Gross Domestic Policy is the totally money value of all final goods and services produced in an economy in \_\_\_\_\_\_\_\_\_\_year

**GNP:**

* Gross National Product is the total money value of all final goods and services produced in an economy in one year, plus net property income from abroad (interest, rent, dividends and profit)

**Nominal/Real GDP:**

* Nominal Gross Domestic Product is GDP, is \_\_\_\_\_\_\_\_\_ adjusted for inflation
* Real Gross Domestic Product GDP, adjusted for inflation

**HDI, Business Cycle:**

* Human Development Index is a composite index that brings together measurements of life expectance at birth, literacy rate, school enrollment rate, and GDP per capita to measure relative development
* Business Cycle shows fluctuations in the level of economic activity in an economy over time and suggests that the changes are cyclical. There are four stages: depression, recovery, boom, and recession

**AD:**

* Aggregate Demand is the total spending in an economy consisting of consumption, investment, government expenditures and net exports

**Components of AD:**

* C = Consumption is spending by households on consumer goods and services over a period of time
* I = Investment is the addition to the capital stock of the economy in the form of factories, offices, machinery and equipment which is used to produce goods and services
* G = All Government spending
* X-M = Spending by foreigners on exports \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ by less domestic spending on imports

**Gaps:**

* Inflationary Gap is the situation here total spending (AD) is greater than the full employment level of output, thus causing\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Deflationary Gap is the situation where total spending (AD) is less than the full employment level of output, thus causing unemployment

**Demand-Side Policies:**

* Demand – Side Policies are any government policies designed to influence AD in the economy, thus affecting the average price level and \_\_\_\_\_\_\_\_\_\_national output
* Fiscal Policy is a policy using changes in government spending and/or direct taxation to achieve economic objectives
* Monetary Policy is a policy using changes in the money supply or interest rates to achieve economic objectives

**AS:**

* Aggregate supply is the totally amount of domestic goods and services supplied by businesses and the government, including both consumer goods and capital goods
* Short – Run Aggregate Supply is AS that varies with the level of demand for goods and services and that is shifted by changes on the costs of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of production
* Long – Run Aggregate Supply is AS that is dependent on the resources in the economy and that can only be increased by improvements in the quantity and/or quality of factors of production

**Supply-Side Policies:**

* Supply-side Policies are government policies designed to shift the LRAS curve to the right, thus increasing potential output in the economy
* The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the ratio of change in the level of national income to an initial change in one or more of the injections into the circular flow of income
* The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ is the relationship between the level of induced investment and the rate of change of national income

**Crowding Out:**

* Crowding Out is the situation where the government spends \_\_\_\_\_\_\_\_\_\_\_\_\_ (government expenditure) that it receives in revenue (mainly taxation), and needs to borrow money, forcing up interest rates and “crowding out” private investment and private consumption.

**Unemployment Pt.1:**

* Unemployment is a situation that exists when people who are willing and able to work cannot get a job
* Full unemployment exists when the number of jobs available in a economy is equal to or greater than the number of people actively seeking work.
* Underemployment exists when workers are carrying out jobs for which they are over- qualified, that is they are not using their full skills and abilities or when workers are employed part-time, even though they are available for full-time employment or when workers in a planned economy are undertaking jobs that would not exists in a free market

**Unemployment Pt. 2:**

* The Unemployment Rate is the number of unemployed workers expressed as a \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ for the totally workforce
* Structural Unemployment is unemployment that exists when in the long term the pattern of demand and productions methods change and there is a permanent fall in the demand for a particular type of labor. There is a mismatch between skills and the jobs available

**Unemployment Pt. 3:**

* Frictional (Search) Unemployment is the unemployment that exists when people have left a job and are in process of searching for another job
* Seasonal Unemployment is unemployment that exists when people are out of work because their usual job is out of season
* Demand Deficient or Cyclical Unemployment is unemployment that exists when there is insufficient AD in the economy and real wages do not \_\_\_\_\_\_\_\_\_ to compensate for this

**Unemployment Pt. 4:**

* Real Wage Unemployment is unemployment that exists when real wages (wages adjusted for inflation) in the economy get pushed up above their equilibrium, either by the government or by trade unions

**Inflation:**

* Inflation is a sustained increase in the general (or average) level of prices and a fall in value of the money
* Demand- Pull Inflation is inflations that is caused by increasing AD in an economy that shifts the AD curve to the right
* Cost- Push Inflation is inflation that is caused by an increase in the costs of production in an economy that shifts SRAS curve to the left

**Deflation:**

* Deflation is a persistent fall in the average level of prices in an economy

**Tax:**

* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_Taxation is taxation imposed on people’s income or wealth, and on firms and profits
* Indirect taxation is a tax on expenditure. It is added to the selling price of a good or service
* Proportional Tax is when as income rises, the average proportion pain in tax stays constant
* Progressive Tax is when as income rises, the average rate of tax increases
* \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Tax is when as income rises, the average rate of income tax falls

**Budget Position:**

* Budget Deficit is when the central government is spending more than it receives in tax revenue
* Budget Surplus is when the central government spending is \_\_\_\_\_\_\_\_\_\_ than its tax revenue

**Economic Goals:**

* Economic Growth is increasing production of goods and services
* High Employment (Low Employment) are the resources being used in production
* Price Stability (low inflation) is when prices are stable and not rising rapidly or decreasing

**Traps:**

* Unemployment Trap occurs when people are worse off by working than they are when they are receiving benefits. Because they lose benefits when they start work and are taxed on their income, their total income falls when they start work. This created an incentive not to work
* Poverty Trap occurs when people are \_\_\_\_\_\_\_\_\_\_\_\_off when they earn more. This is because some benefits are withdrawn

**Fiscal in-depth:**

* Reflationary Fiscal Policies include lower taxes and more Government spending. These increase AD
* Deflationary Fiscal Policies include higher taxes and less Government spending. These reduce AD

**Recession:**

* A recession is when the economy experiences two consecutive quarters of falling GDP