

Summary

3.1 Measuring economic activity and illustrating its variations

Subject	Year	Start date	Duration
Economics	IB1	Week 2, June	1 week 2 hours

Course Part

Macroeconomics

Description

Measuring economic activity and illustrating its variations, you should be able to:

- Be familiar with the following economic terminology: GDP, circular flow of income, injections, leakages, real GDP, national income, real GDP, nominal GDP, GDP per capita, gross national product, gross national income, green GDP, economic growth, purchasing power parity, recession.
- Describe how national income accounting is used to measure economic activity.
- Describe, using a diagram, the circular flow of income in an open economy with government and financial markets, referring to leakages/withdrawals (savings, taxes and import expenditure) and injections (investment, government expenditure and export revenue).
- Explain how the size of the circular flow will change depending on the relative size of injections and leakages.
- Distinguish between GDP and GNI (also known as GNP) as measures of economic activity.
- Distinguish between the nominal value of GDP and GNI and the real value of GDP and GNI.
- Distinguish between total GDP and GNI, and GDP per capita and GNI per capita.
- Calculate nominal GDP from sets of national income data, using the expenditure approach.
- Calculate GNI from data.
- Calculate real GDP/GNI using a price deflator.
- Examine the output approach, the income approach and the expenditure approach when measuring national income.
- Evaluate the use of national income statistics, including their use for making comparisons over time and between countries, and their use for drawing conclusions about standards of living.
- Explain the use of purchasing power parity (PPP) as a measurement to account for differences in purchasing power between countries.
- Explain, using a business cycle diagram, how economies typically tend to go through a cyclical pattern characterised by the phases of the business cycle.
- Explain the long-term growth trend in the business cycle diagram as the potential output of the economy.
- Distinguish between a decrease in GDP and a decrease in GDP growth.
- Distinguish between alternative measurements of well-being, such as BLI, and the HPI.
- Examine how the efforts to address GDP's shortcomings have resulted in a better measurement of economic growth.
- Consider why most countries continue to use GDP as a measurement of their economies despite the many alternative measures of well-being.

Inquiry & Purpose

? Inquiry / Higher Order Questions

Type

Inquiry Questions

Skills-based

How the government of a chosen country has responded to business cycle fluctuations.

Curriculum

Objectives

Synthesis and evaluation (AO3)

Examine economic concepts and theories

Syllabus Content

Unit 3: Macroeconomics

Real-world issue 1 - Why does economic activity vary over time and why does this matter?

3.1 Measuring economic activity and illustrating its variations

National income accounting as a measure of economic activity

Equivalence of the income, output and expenditure approaches to national income accounting, with reference to the circular flow model

Diagram: circular flow of income model showing the interactions between decision makers, leakages and injections

Equivalence of the income, output and expenditure approaches to national income accounting, with reference to the circular flow model

[Nominal] Gross domestic product (GDP) as a measure of national output

Calculation: [nominal] GDP from sets of national income data, using the expenditure approach

[Nominal] Gross national income (GNI) as a measure of national output

Calculation: [nominal] GNI from data

Real GDP and real GNI

Calculation: real GDP and real GNI, using a price deflator

Real GDP/GNI per person (per capita)

Real GDP/GNI per person (per capita) at purchasing power parity (PPP)

Calculation: real GDP per capita and real GNI per capita

Business cycle: short-term fluctuations and long-term growth trend (potential output)

Diagram: business cycle showing short-term fluctuations and long-term growth trend (potential output)

Appropriateness of using GDP or GNI statistics to measure economic well-being—use of national income statistics for making:

comparisons over time

comparisons between countries


Alternative measures of well-being

OECD Better Life Index

Happiness Index

Happy Planet Index

IB DP 12 EC 1 Group 3 (IB1)

 Concepts

Economic Well-being

 ATL Skills

 Approaches to Learning

 **Thinking**

- In this unit, we will
 - set students a task which required higher-order thinking skills (such as analysis or evaluation)
 - build on a specific prior task

 Developing IB Learners

 Learner Profile



Knowledgeable



Reflective