

Economic Growth — Worksheet

Actual and potential growth · the causes of growth · the benefits and costs of growth · output gaps

Name: _____

Class: _____

Date: _____

DEFINE actual economic growth and an output gap · **CALCULATE** a growth rate and an output gap · **DRAW** growth on a PPF diagram and on an AD and LRAS diagram · **ANALYSE** how exports and an output gap affect growth and inflation · **DISCUSS** the benefits and costs of fast growth for a country's people · **EVALUATE** the effects of more investment on economic growth

Sitting 1 — Topic practice

30 marks

MULTIPLE CHOICE Task 1 — Six questions on economic growth

6 marks

Choose one answer for each question.

1. On a production possibility frontier, actual growth that uses spare capacity is shown by:

- A a movement along the frontier
- B an outward shift of the frontier
- C a movement from inside the frontier towards it
- D an inward shift of the frontier

Answer:

2. Export-led growth is growth that is:

- A measured by the size of the trade surplus
- B caused by replacing imports with domestic goods
- C limited to economies that export raw materials
- D driven mainly by rising sales to other economies

Answer:

3. Which of these is a process innovation?

- A A firm launches a new flavour of soft drink
- B A retailer opens a second shop in another city
- C A factory adopts a method that cuts waste per unit
- D A bank raises the interest rate it pays savers

Answer:

4. Real GDP rises by 3% while the population rises by 4%. Real GDP per head has:

- A risen by 3%
- B fallen
- C risen by 7%
- D not changed

Answer:

5. An economy at full capacity chooses to produce more capital goods. The opportunity cost is:

- A the extra capital goods it produces
- B the money spent on the capital goods
- C the consumer goods it will gain in future
- D the consumer goods it can no longer produce now

Answer:

6. Which pair of signs is most likely in an economy with a positive output gap?

- A High unemployment and falling inflation
- B Spare capacity and weak investment
- C Labour shortages and rising inflation
- D Unsold stock and price cuts in many shops

Answer:

DEFINE Task 2 — The meaning of actual economic growth

2 marks

Define the term 'actual economic growth'.

actual economic growth

EXPLAIN Task 3 — More workers from abroad in Juno

4 marks

Over five years, net migration adds 1 million workers to Juno's labour force. All of the new workers find jobs. Firms in Juno do not buy more machines. Many of the migrants also bring children, who do not work.

Explain why the rise in Juno's labour force may not raise real GDP per head.

CLASSIFY Task 4 — Eight changes in Tarsa

8 marks

Tarsa is a country that trades with other countries. Each row is a separate change.

Classify each change in Tarsa as actual growth only, potential growth or neither.

Key: Actual growth only · Potential growth · Neither

#	Change in Tarsa	Actual growth only, potential growth or neither
1	Factories that stood idle reopen, because households spend more	
2	Foreign buyers order more goods, and firms use idle machines to meet the demand	
3	A foreign firm finishes building a new factory	

#	Change in Tarsa	Actual growth only, potential growth or neither
4	Many more people of working age come to live in Tarsa than leave it	
5	A firm finds a way to pack each order in half the time	
6	New rivals push firms in Tarsa to adopt better methods	
7	With every worker in a job, firms move workers from making shoes to making bicycles	
8	A foreign firm buys an office tower that already stands in Tarsa	

CALCULATE

Task 5 — Real GDP in Selva

4 marks

Selva's real GDP was \$600bn in 2024. In 2025, its real GDP was \$627bn.
Calculate the rise in Selva's real GDP from 2024 to 2025, and its growth rate in 2025 to one decimal place.

Rise in real GDP from 2024 to 2025 (\$bn)

Workings

Answer:

Growth rate of real GDP in 2025 (%)

Workings

Answer:

ANALYSE

Task 6 — More exports from Kavra

6 marks

Kavra's factories make electronics, and they sell most of them to buyers abroad. In 2025, foreign orders rose, and Kavra's exports grew from \$40bn to \$50bn. At the start of 2025, a fifth of Kavra's factories stood idle. Nothing else changes.
Analyse the likely effect of the rise in exports on economic growth in Kavra.

Knowledge — define two economic terms that you use (2)

Application — use the figures for Kavra (2)

Analysis — your chain of reasoning (2)

Sitting 2 — Mock section

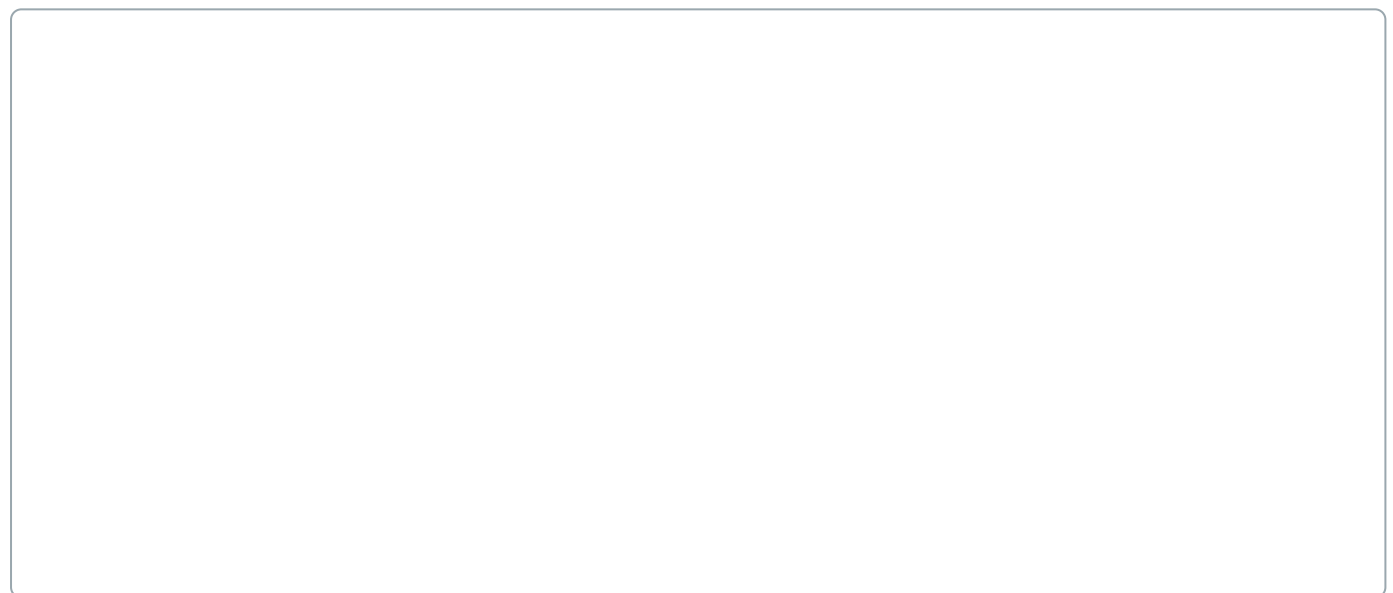
74 marks

DRAW Task 7 — Idle factories reopen in Vessa

4 marks

In Vessa, many factories stand idle, and many workers cannot find a job. Households then spend more, and the idle factories reopen. Vessa's productive capacity does not change.

Draw a PPF diagram, with capital goods and consumer goods on the axes, to show this change in Vessa's output.



Mark where Vessa starts and where it ends.

DRAW**Task 8 — A better method of production in Orra****4 marks**

A new method of production spreads across Orra's firms. Each worker can now produce more output each hour. Aggregate demand does not change.

Draw an AD and LRAS diagram to show the likely effect of this change on Orra's real output.



Label the axes and every curve you draw.

CALCULATE**Task 9 — The output gap in Brenna****4 marks**

In 2025, Brenna's actual output, its real GDP, was \$481bn. Economists estimate that its potential output in 2025 was \$500bn.

Calculate Brenna's output gap in \$bn and as a percentage of its potential output, to one decimal place.

Output gap (\$bn)

Workings

Answer:**Output gap as a percentage of its potential output (%)**

Workings

Answer:

EXPLAIN Task 10 — Growth and tax revenue in Kesh

4 marks

Kesh's real GDP rises from \$320bn to \$350bn. Tax revenue in Kesh is 20% of GDP, and no tax rate changes. The government plans to spend any extra revenue on schools and hospitals.

Explain how this growth is likely to affect tax revenue and public services in Kesh.

EXPLAIN Task 11 — Coal and growth in Dalvo

4 marks

Most of Dalvo's growth comes from new steel and cement works. These works burn coal.

Explain one likely environmental cost of Dalvo's growth.

Source: Fast growth in Morvia

- 1 Morvia is a middle-income country that makes clothes and furniture for export. From 2023 to 2025, banks in Morvia charged lower interest rates, so households and firms borrowed and spent much more. Real GDP grew faster each year (Figure 1). The central bank estimates that Morvia's trend rate of growth is 3% a year. Firms sold more and made higher profits, and many of them bought new machines.
- 2 By 2025, many firms could not find enough workers, and factories ran extra shifts. Wages and the prices of materials rose, and firms raised their prices. Households and firms bought many more imported goods, such as cars and machines. The balance of trade moved from a surplus to a deficit (Figure 1). From 2023 to 2025, real incomes rose by 24% for the richest fifth of households. For the poorest fifth, real incomes rose by 5%.
- 3 The central bank estimates Morvia's output gap in 2025 at +2.5% (Figure 1). Economists at Morvia's largest bank estimate the gap at +0.5%, because they estimate that potential output grew faster. The statistics office often revises its first figures for real GDP. The finance minister says: 'Fast growth has made everyone in Morvia better off.'

Figure 1: Economic data for Morvia, 2023 to 2025

Measure	2023	2024	2025
Growth of real GDP	2.0%	4.0%	5.5%
Growth of population	1.2%	1.2%	1.2%

Measure	2023	2024	2025
Output gap, central bank estimate (% of potential output)	−1.0%	0%	+2.5%
Inflation rate	1.8%	2.6%	6.2%
Unemployment (% of the labour force)	6.6%	5.1%	3.9%
Balance of trade	+\$4bn	−\$2bn	−\$9bn

DEFINE Task 12 — The meaning of an output gap

2 marks

Define the term 'output gap' (paragraph 3).

output gap

EXPLAIN Task 13 — Fast growth and the balance of trade

4 marks

With reference to Figure 1, explain one likely reason why Morvia's balance of trade moved into deficit.

ANALYSE Task 14 — Rising inflation in Morvia

6 marks

With reference to paragraph 2, analyse why inflation rose in Morvia in 2025.

Knowledge — define two economic terms that you use (2)

Application — use the facts in paragraph 2 and figures from Figure 1 (2)

Analysis — your chain of reasoning (2)

EXAMINE**Task 15 — Two estimates of one output gap****8 marks**

With reference to paragraph 3, examine why Morvia's output gap is difficult to measure.

Knowledge — explain two economic ideas that you use (2)

Application — use two facts or figures from the source (2)

Analysis — your chain of reasoning (2)

Evaluation — say what the answer depends on (2)

DISCUSS**Task 16 — Fast growth and the people of Morvia****14 marks**

With reference to the source, discuss whether Morvia's fast growth from 2023 to 2025 has made its people better off.

Knowledge — explain two economic ideas that you use (2)

Application — use two facts or figures from the source (2)

Analysis — two chains of reasoning (4)

Evaluation — weigh the effects and say what they depend on (6)

EVALUATE Task 17 — More investment in Rania

20 marks

"In Rania, real GDP is 4% below its estimated potential output. The government plans to cut the tax on profits for firms that build new factories in Rania. It also hopes that foreign firms will build factories there, as foreign direct investment (FDI)."

Evaluate the likely effects of more investment, including FDI, on economic growth in Rania.

Knowledge — define two economic terms that you use, and explain one other idea (3)

Application — use the facts about Rania (3)

Analysis — two chains of reasoning (6)

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Write the one sentence that answers Task 17's question.



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