

Economic policies and growth in the UK economy

A2 Macro Revision

February 2009



Question

- *Evaluate the extent to which government economic policy may have influenced the rate of growth of the UK economy in recent years (30 marks)*
- 25-27 mins to write an answer to this one
- Probably room for 2-3 sides (inc diagrams)

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A Good Answer

- Will show a clear grasp of **concepts**
- Will understand **what economic growth is**
- Will show awareness of **recent trends**
- Will identify a **range of policies**
- Will appreciate the **limitations of policies**
- Will show an understanding of the **external context** ... i.e. the UK in the global economy

A Plan

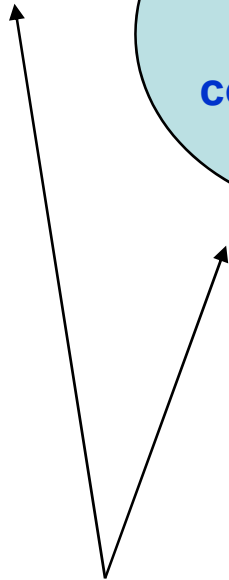
Short
Opening paragraph
Define growth

2nd paragraph
**Growth
comes from....**

3rd and 4th paragraphs
**Identify some
policies**

5th paragraph
**Flag up some
"successes"**

Final paragraph
**Criticise
Govt policies**



Keep the early
paragraphs short and
clear

“The rate of growth”

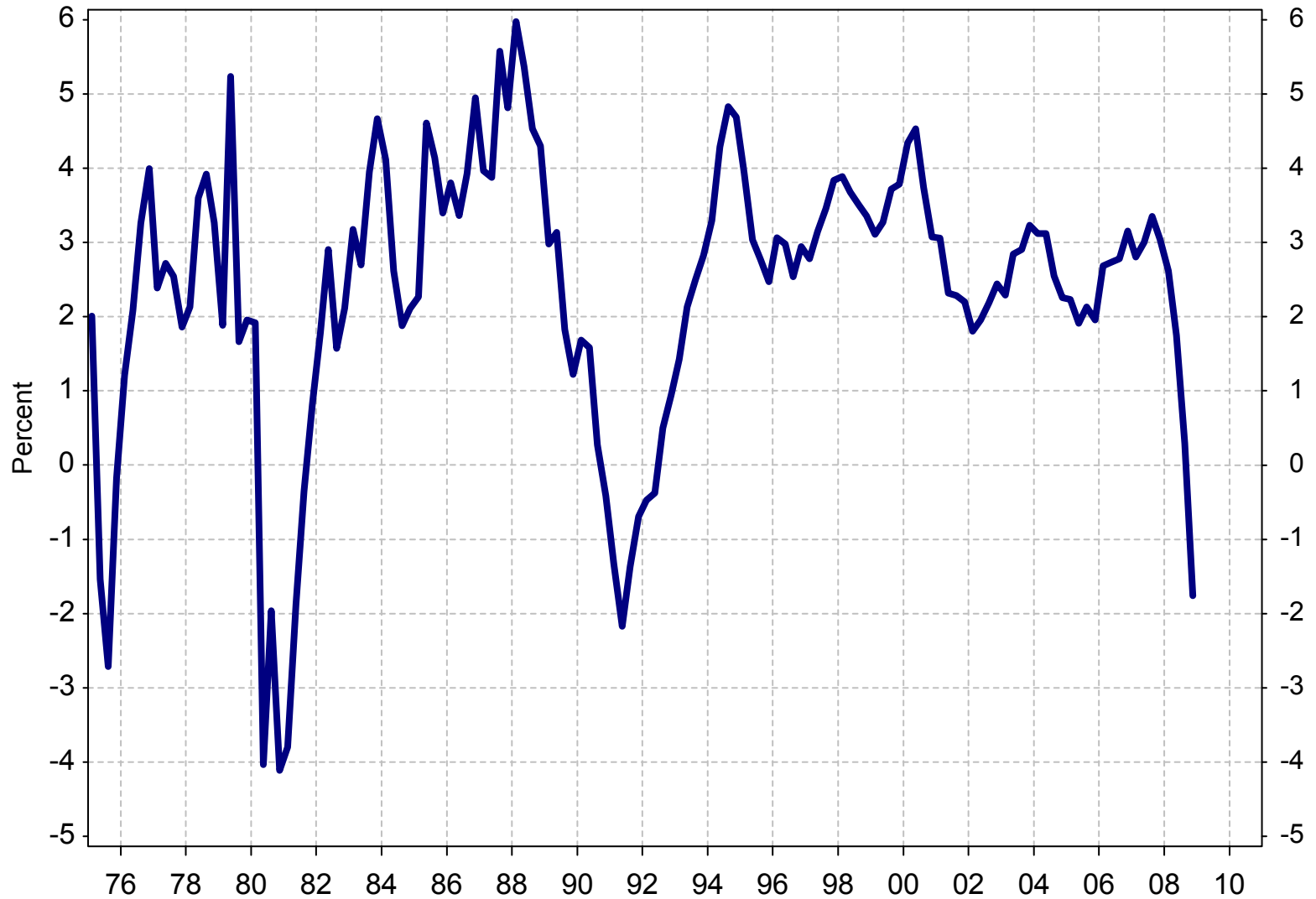
- **Short term growth** - % change in real GDP
- **Trend growth** - % change in potential GDP
- **Sustainable growth**
- **Balanced growth**
 - E.g. between consumption and investment
 - Between exports and imports

Where does 'growth' come from

- Expanding capital stock
- Technological change
- Growing 'active' labour force
- Improvements in human capital
- Product and process innovation
- Higher productivity
- Competitive advantage in markets
- *Most A2 answers make no reference to these!*
- *They only discuss changes in aggregate demand!*

The Cycle - Growth in UK National Output

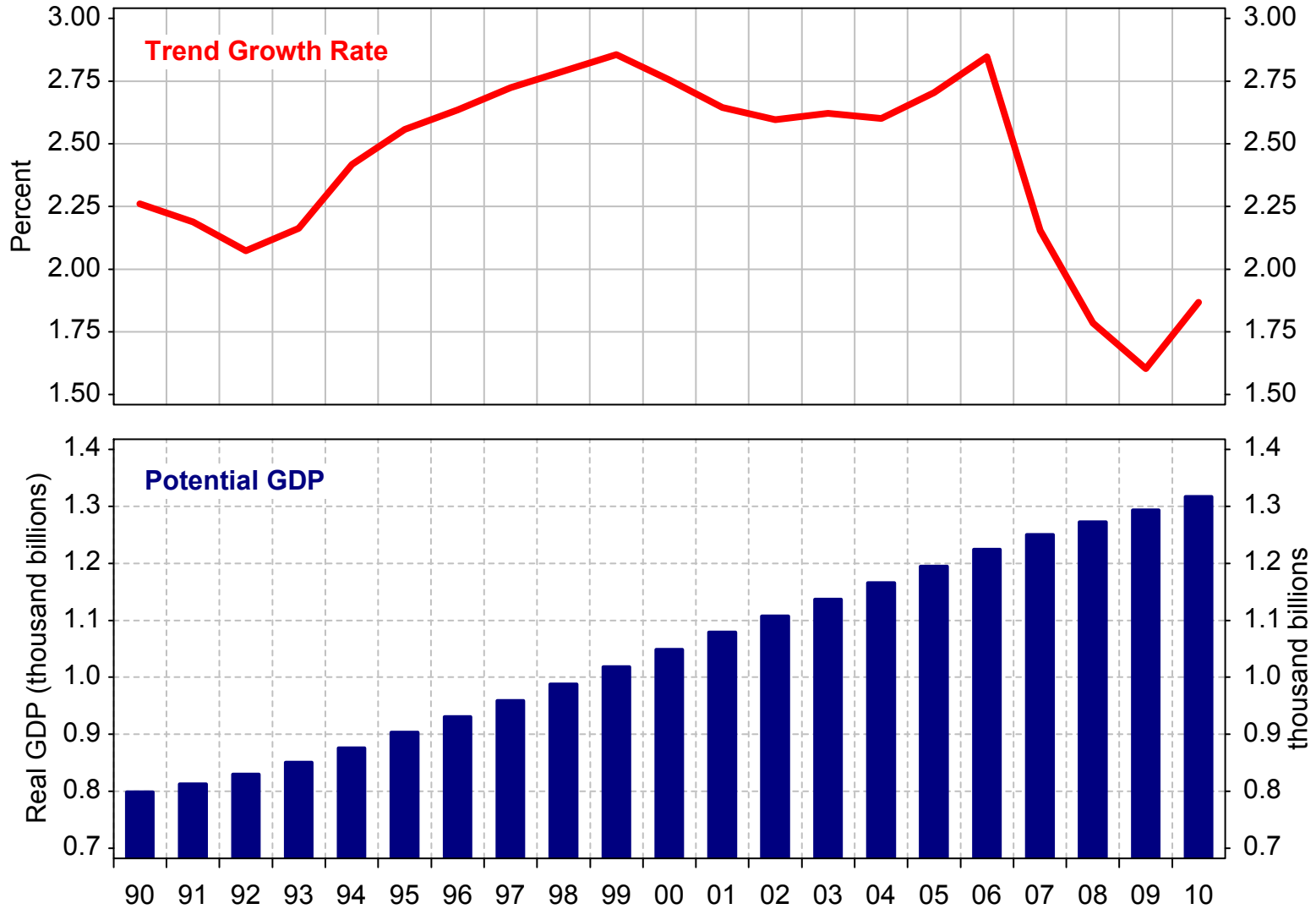
Annual percentage change in GDP at constant prices



Source: UK Statistics Commission

UK - Potential GDP and Trend Growth

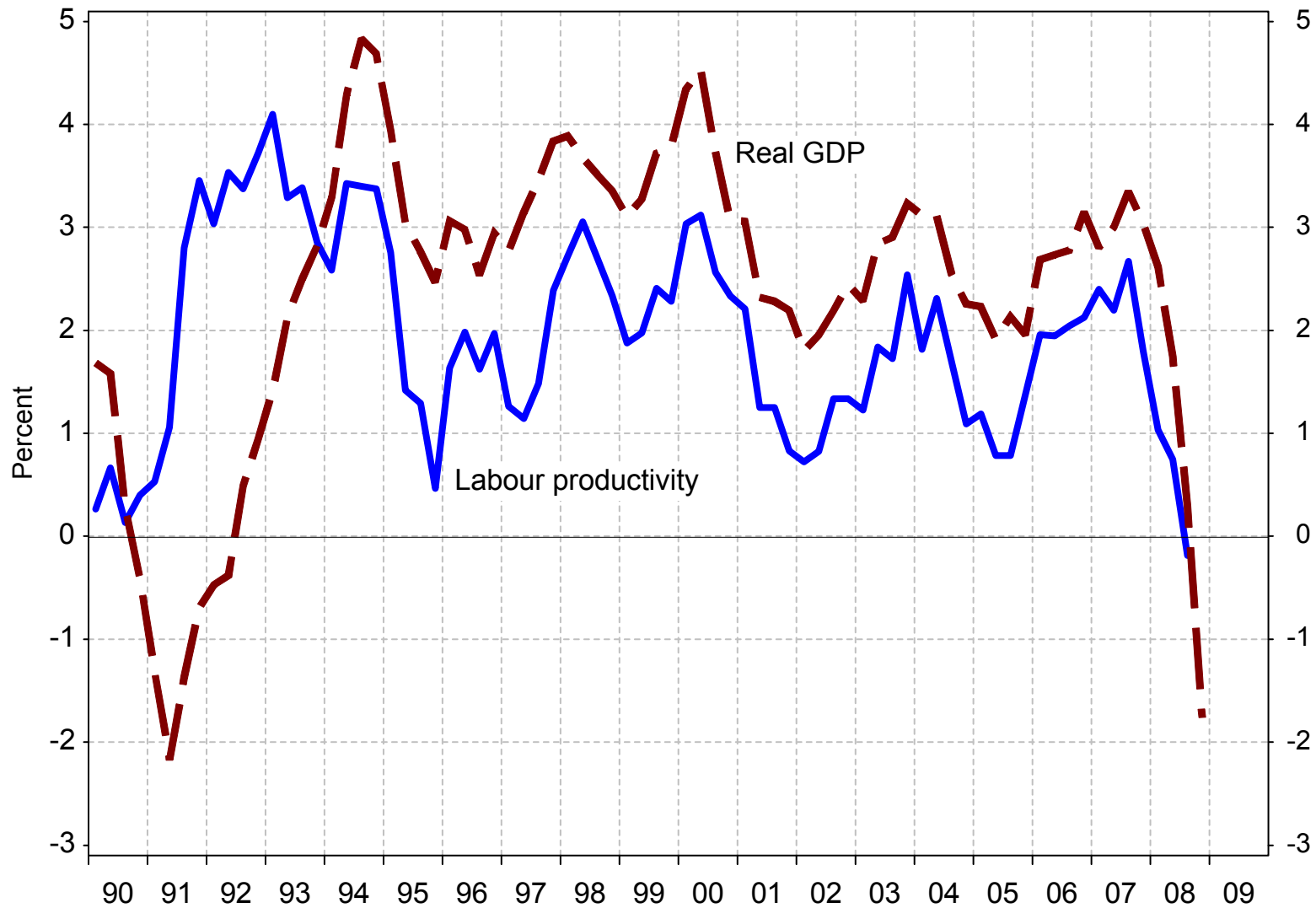
Source: OECD World Economic Outlook



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UK Labour Productivity and the Economic Cycle

Annual % change in output per worker for the whole economy



Source: Reuters EcoWin

Government economic policies

- Fiscal policies
 - Taxation / tax reforms
 - Government spending / borrowing
- Supply-side policies
 - Labour market
 - Product markets
 - Trade policies
- Monetary policy
 - Bank of England
 - Base rates
 - Floating exchange rate
 - No controls on credit supply

“Growth policies”

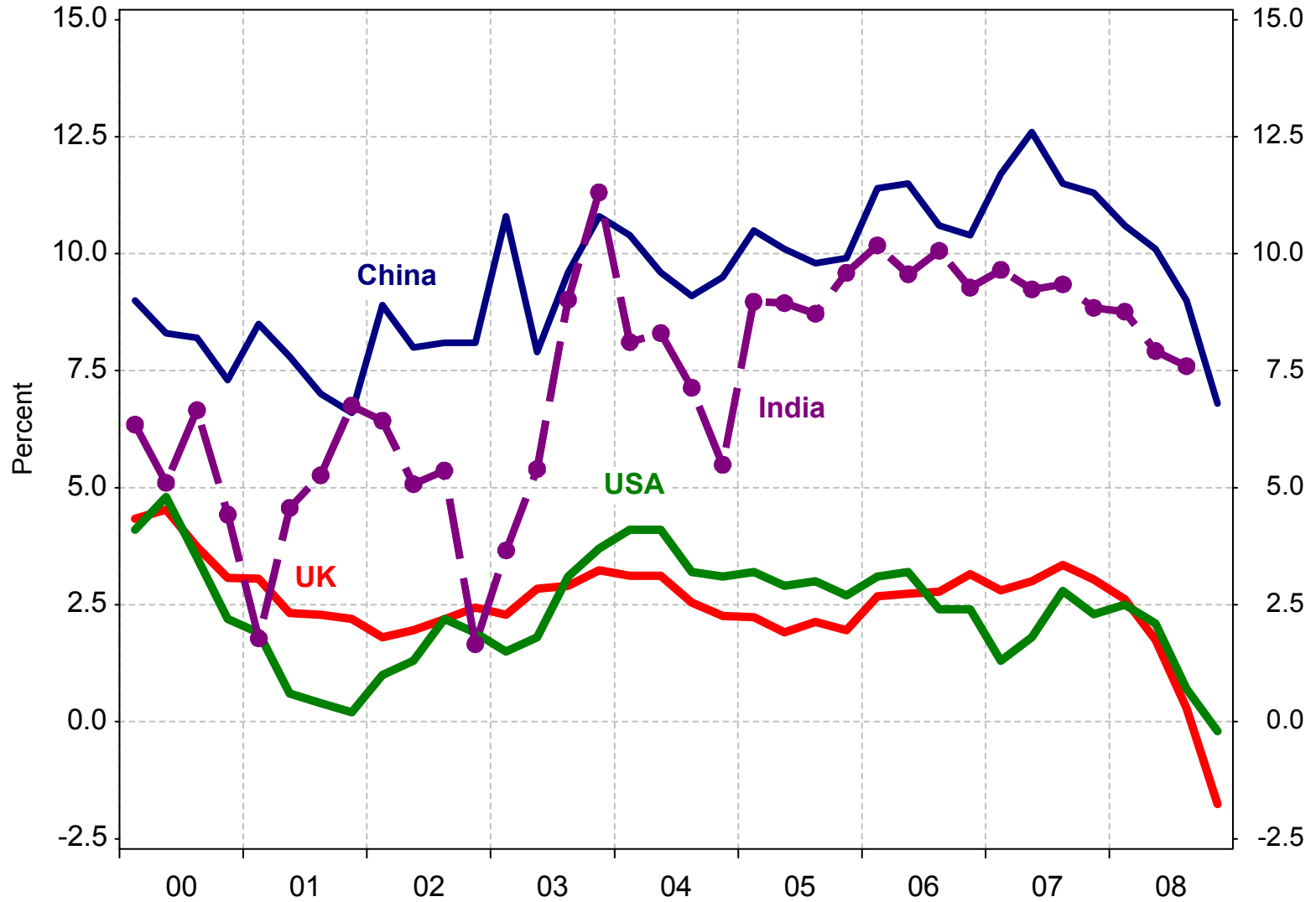
- Openness to foreign trade and investment
- Openness to net inward migration
- Tax reforms and work incentives
- Fiscal rules on borrowing and public sector investment
- Public spending on education and health
- Funding for business start-ups
- Tax credits for research and development
- Out-sourcing of monetary policy to the ‘independent’ Bank of England

Evaluate to accumulate!

- Economic growth does not happen in isolation!
 - Impact of globalisation
 - Favourable/unfavourable external shocks

China's Economic Growth Compared

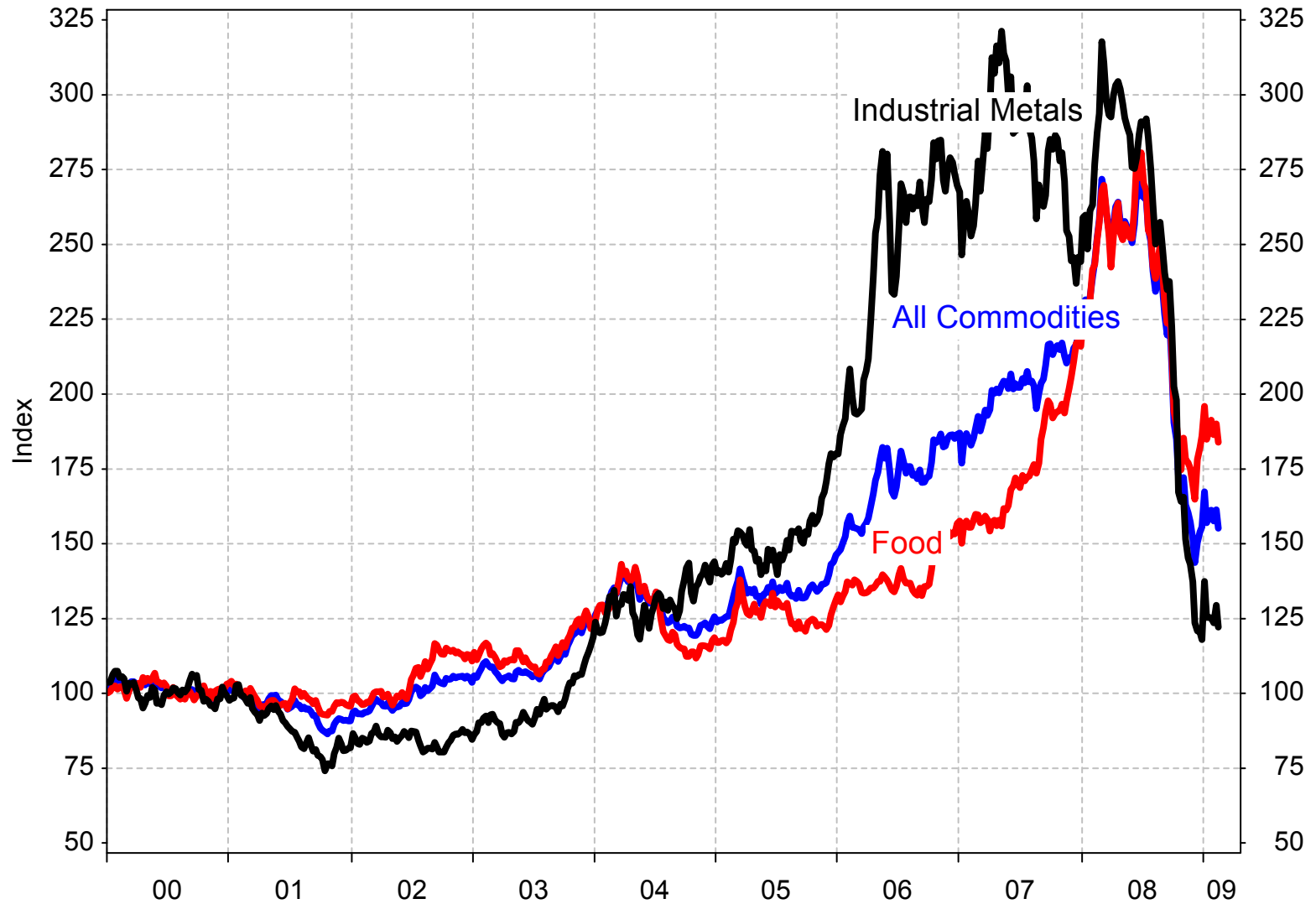
Annual percentage change in real national output



Source: Reuters EcoWin

The Economist Commodity Price Index

Index of Prices 2000=100



Source: Economist Commodity Price Index

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 - Technology spill-over
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- Go back to the question “evaluate the extent”
- What is happening in the economy now? !!!!!

tutor2u

