Most governments have the key macroeconomic objective of achieving economic growth.

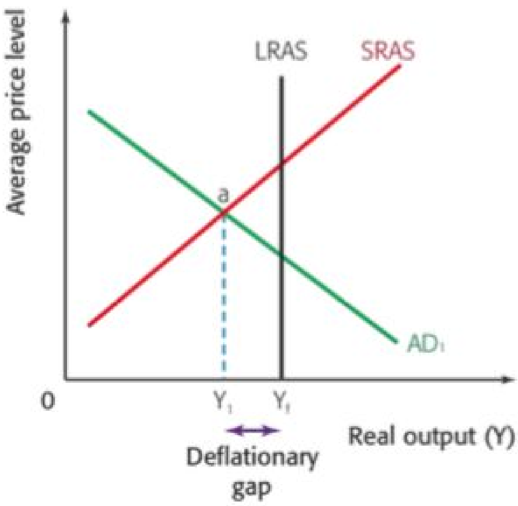
Economic growth is an increase in national income. The most common measure is real GDP. Real GDP is the value of quantity of goods and service produced in a period of time (usually a year) which has been adjusted for inflation.

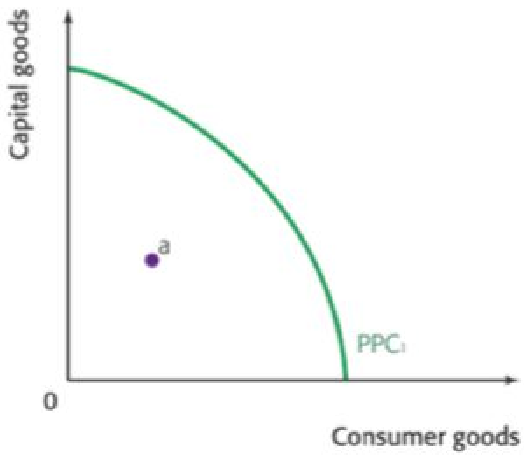
It is typically measured as (1) a percentage change in real GDP; or (2) a percentage change in real GDP per capita.

Economic growth expressed as a change in real GDP per capita provides is a better measure because it informs us of the total economic output (i.e., the total value of final goods and services produced in an economy) produced per person, on average. It provides us with a better measure of the standard of living within a population. A small, developed country like Sweden has far lower real GDP than a large developing nation such as India. However, Sweden has far higher GDP per capita than India does, and thus we can safely assume that other things being equal, Sweden enjoys a much better standard of living than the average person in India.

Short-term Economic Growth

We can see that the following economy is in a deflationary gap.





Explain what it means to be in a deflationary gap in your own words and the diagram.

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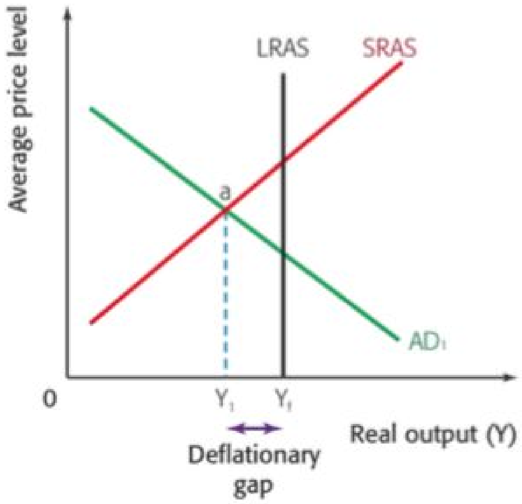
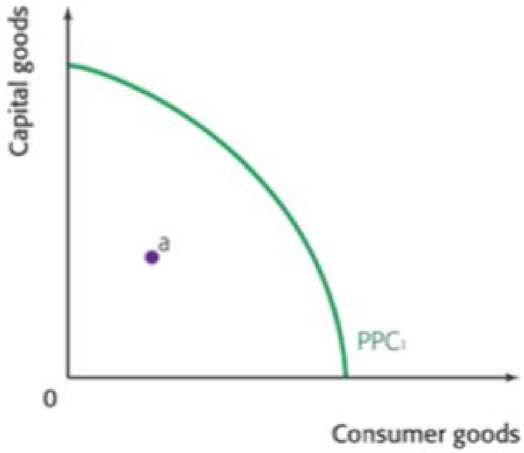
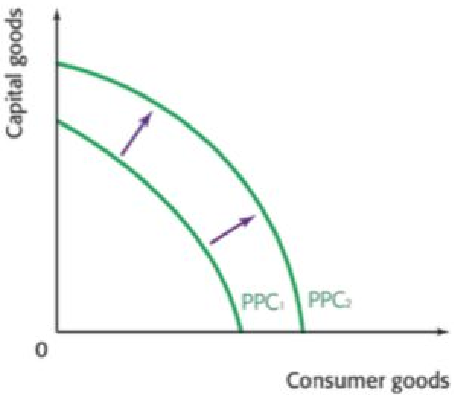
Below diagram how an increase in Aggregate Demand could remove the deflationary gap.





What could cause this increase in aggregate demand. ***THINK:*** C+I+G+(X-M)

Long-term Economic Growth



Using your knowledge of long-run aggregate supply what could be some causes of long term economic growth?