**2.7. Economic Growth**

1. Causes of Growth

a) The distinction between actual and potential growth.

b) Actual growth caused by an increase in the components of AD.

c) The importance of international trade for export-led growth.

d) Causes of potential growth:

• domestic investment and foreign direct investment (FDI)

• innovation

• growth in size of labour force, including net migration

• the degree of competition.

e) The importance of productivity for the rate of economic growth.

2. Benefits of Growth

a) Possible benefits of growth:

• higher living standards

• lower unemployment

• increased profits for firms

• higher levels of investment

• increased tax revenues

• improved public services

3. Costs of Growth

a) Possible costs of growth:

• opportunity costs

• environmental costs

• balance of trade deficits

• increased inequality

• inflation

4. Output Gaps

a) The difference between actual growth rate and long-term trends in growth.

b) The distinction between positive and negative output gaps.

c) Characteristics of positive and negative output gaps.

d) Difficulties of measuring output gaps.