12 Economics 7 Economic Growth

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1.	**aggregate demand**	the total demand for goods and services within the economy; components of aggregate demand are: consumption (C); investment (I); government spending (G); and net exports (X-M)
2.	**aggregate supply**	the total productivity capacity of an economy, i.e. the potential output when all factors of production output when all factors of production are fully utilised
3.	**average propensity to consume (APC)**	the proportion of total income that is spent on consumption
4.	**average propensity to save (APS)**	the total income that is not spent, but is saved for future consumption
5.	**circular flow of income**	a model that describes how economic activity occurs between the different groups in an economy; saving, taxation and spending on imports represent leakages from the circular flow
6.	**equilibrium**	is achieved in an individual market when any consumer who is willing to pay the market price for a good or service is satisfied, and any producer who offers their good and services at the market price is able to sell their produce; it occurs when quantity demanded is equal to quantity supplied, i.e. when the market clears
7.	**investment**	any current expenditure where the benefits will be obtained in the future; most typically, this injection will involve the purchase of capital goods or the build up of stock and inventory
8.	**marginal propensity to consume (MPC)**	the proportion of each extra dollar of income that is spent on consumer products
9.	**marginal propensity to save (MPS)**	the proportion of each extra dollar of income that is saved
10.	**multiplier**	the greater than proportional increase in national income resulting from an increase in aggregate demand
11.	**multiplier process**	explains how an increase in aggregate demand will increase the overall level of national income by much more that the initial increase; this amount is known as the multiplier; the size of the multiplier is determined by the marginal propensity to save
12.	**recession**	the stage of the business cycle where there is decreasing economic activity, defined as two consecutive quarters (six months) of negative economic growth i.e. a fall in the GDP