1. To what extent do you think increasing GDP is a good target for governments?

*Answers may include:*

GDP measures the national income of a country over a period of time. As an indicator of the standard of living a government might want to use real GDP (i.e. GDP adjusted for inflation) per capita. This shows the purchasing power per person in the economy and can be measured over time. This is a common target for governments because it is a measure of the financial welfare of their citizens.

However it may have limitations such as:

- It does not show the distribution of income
- It does not reflect the quality of goods and services
- Growth may have adverse environmental effects
- Higher incomes may be at the expense of the quality of life e.g. it may be achieved through working more hours

Recently governments have considered alternative targets such as happiness; focusing on what makes people happy which may not necessarily be more income.

2. Should governments try and increase aggregate demand?

*Answers may include:*

Aggregate demand measures the planned expenditure on final goods and services. It comprises: C+I+G+X-M (consumption plus investment plus government expenditure plus export revenue minus import spending).

A government may want to boost aggregate demand to increase output and employment in the economy. For example, if there is a deflationary gap and aggregate demand is too low for full employment a government may want to reflate the economy. The government may increase its own spending, for example or reduce taxes to encourage spending by firms and households.

Whether this is a good decision depends on factors such as:

- The position of the economy; if it is already at full employment a boost in aggregate demand may cause demand pull inflation
- The target set - e.g. is it growth or to reduce spending on imports
- The knock on effects - e.g. if the government has a deficit then it needs to finance this; will selling government bonds reduce the finance available for other private sector investments (this is known as crowding out).
- The effectiveness of its policies e.g. a cut in taxes may increase disposable income but will this lead to more spending? How effective will this be relative to e.g. a cut in interest rates?
3. What do you think determines how much households spend on consumption?

*Answers may include:*
Consumption measures the spending by households on final goods and services. This is an important element of aggregate demand.

Consumption spending may be effected by:
- Current income
- Tax and benefit rates
- Future income
- Interest rates
- Wealth
- Position in the life cycle