

Volume 43, Number 4, April 2026

Answers

Exam-style questions

Questions on GDP and inflation

Steve Stoddard

This resource provides answers to the questions posed in the Exam-Style Questions column, in the April 2026 issue of ECONOMIC REVIEW.

Question 1

Using Table 1, calculate the mean average rate of GDP growth (%) in the UK from 2016 to 2024. Give your answer to one decimal place. (2 marks)

Answer

$(1.9 + 2.7 + 1.4 + 1.6 - 10.4 + 8.7 + 4.4 + 0.1 + 1.1) / 9 = 11.5/9 = 1.27778\%$

- Answer = 1.3% (1dp)
- 1 mark for correct answer not rounded to 1dp (e.g. 1% or 1.28%)
- 1 mark for correct method but incorrect final answer% fall

Question 2

Explain how the data in Table 1 may show a positive relationship between GDP growth and inflation between 2016 and 2024. (4 marks)

Answer

Relevant points include:

- GDP growth rose from 1.9% to 2.7% between 2016 and 2017 while CPI inflation also rose from 1.6% to 3.0%.
- GDP growth fell from 1.6% to -10.4% between 2019 and 2020 while CPI inflation also fell from 1.3% to 0.6%.

Question 3

With the help of a diagram, explain why a negative output gap may lead to falling inflation. (9 marks)

Answer

Relevant points include:

- Definitions, e.g. of output gap, inflation, disinflation, deflation
- Reasons why a negative output gap may lead to lower inflation, e.g. falling AD leads to growing spare capacity, more unused factors of production, so less competition for their use
- Slowing or negative economic growth – explanation of negative multiplier effect, falling AD leads to increased unemployment as derived demand for labour falls, average incomes fall, less spending in the economy, less demand-pull inflation
- Reference to data in Table 1
- Use of relevant diagram(s), e.g. AD/AS diagram illustrating a negative output gap. Could also use PPF diagram, economic cycle diagram or short-run Phillips Curve diagram

Question 4

Evaluate the view that economic growth will always lead to inflation. (25 marks)

Answer

Issues for consideration:

- Understanding of economic growth, output gaps and inflation
- Reference to Table 1
- Knowledge of how economic growth and inflation are measured in the UK

Relevant points for analysis:

- Explanation of how short run economic growth caused by increased AD may cause demand-pull inflation if close to, or at, full capacity
- Explanation of how short run economic growth caused by increased SRAS may lead to reduced inflation
- Explanation of how long run economic growth caused by increased LRAS may lead to reduced inflation
- Use of relevant diagram(s)

Relevant points for evaluation:

- Discussion of causes of economic growth
- Depends on how close the economy is to full capacity, or size of output gap
- Depends on whether growth arises from increases in AD, SRAS or LRAS
- Depends on balance between short and long run factors

- Discussion of real-world examples, such as the UK economy
- Strengths and weaknesses of policies to increase economic growth, in the short run and long run