

2.3% Real GDP growth 2025 (IMF 2026f: 2.3%)	\$30.8 trn Nominal GDP 2025; largest in world	\$88,810 GNI per head 2025 (UK ~\$55,000)	~68% Household consumption % of GDP (2024)	-3.6% Current account % of GDP 2025 (\$1.12 trn)
2.7% CPI Dec 2025; peak 4.2% May 2026 (oil)	4.2% Unemployment 2025; 4.1% Aug 2026	18.4% Aged 65+ (2025); Germany 23.7%	~0.42 Gini (World Bank 2024); highest in G7	56.7% Dollar share of world FX reserves (Q2 2026)

STRUCTURE OF THE ECONOMY

	% OF VALUE ADDED (APPROX.)	% OF JOBS (2025)
Agriculture	~0.9	1.5
Industry	~18.6	18.9
Services	~80.5	79.6

- **AD mix:** very high C (~68%), steady I (AI data centres 2025–26), negative (X–M).
- **Why spending is high:** high incomes, easy credit, wealth effect from shares and housing; saving rate only ~4–5%.
- **Trade:** goods deficit \$1.24 trn but services surplus \$340 bn (2025).
- **System:** market-based mixed economy; small welfare state, mostly private healthcare.

MAIN INDUSTRIES

- **Tech & AI:** Apple, Microsoft, Nvidia, Alphabet, Amazon; AI investment a big growth driver.
- **Finance:** largest stock and bond markets; Treasuries are the world's safe asset.
- **Shale energy:** record 13.6 m barrels/day oil (2025); top gas producer and LNG exporter.
- **Healthcare:** ~17–18% of GDP, highest in the world.
- **Manufacturing:** ~10% of GDP; ~13 m jobs (19.6 m in 1979); aerospace, pharma, chips.
- **Farming:** ~1% of GDP but a leading exporter of soybeans and corn.

GROWTH STORY: TURNING POINTS

1944 Bretton Woods: dollar at the centre of world money	1971 Gold link ends; dollar floats from 1973	2001 China joins WTO: the "China shock" to factory jobs	2008 Subprime crisis; bailouts and QE
2020 COVID: unemployment 14.8%; GDP -2.1%	2022 CPI 9.1%; Fed hikes to 5.25–5.5%; IRA & CHIPS Acts	2025 Tariffs, tax-cut Act, 43-day shutdown	2026 Court strikes down emergency tariffs; oil shock; Fed hikes

Why US growth beats Europe: big single market, flexible labour, cheap shale energy, venture capital, immigration, big deficits.

EIGHT PROBLEMS

PROBLEM	EVIDENCE	SPEC LINK
Fiscal deficit	\$1.8 trn FY2025, ~6% of GDP	Public finances
Debt & interest	Debt 101% of GDP (2026); interest > defence	Crowding out
Twin deficits	Current account -3.6% of GDP	Balance of payments
Inflation returned	CPI 4.2% May 2026; core 2.4% Aug	Cost-push
Inequality	Gini ~0.42; SPM poverty 13.1%	Redistribution
Healthcare	26.7 m uninsured (2025)	Info gaps, merit goods
Trade uncertainty	Avg tariff ~11% vs 2.4% in 2024	Protectionism
Left-behind regions	Factory jobs 19.6 m → ~13 m	Structural unemployment

INEQUALITY & DEVELOPMENT

- Median household income \$87,460 (2025), a record.
- Official poverty 10.2%; supplemental measure 13.1% (2025).
- Gini ~0.42 vs UK 0.32, Germany 0.34, Norway 0.27 (World Bank).
- Top 1% hold ~30% of household wealth (Federal Reserve).
- Causes: technology, globalisation, weak unions, \$7.25 minimum wage (since 2009), less redistribution. Big gaps between states.

Dollar privilege: reserve share ~71% (2000) → 56.7% (2026). Cheap borrowing lets deficits persist, but debt and tariffs test confidence.

CLASSIC CHAINS USING THE US

- **Consumption-led growth:** share prices ↑ → wealth ↑ → C ↑ → AD ↑ via multiplier → but imports ↑ → current account deficit widens.
- **Tariffs:** tariff ↑ → import prices ↑ → firms' costs and consumer prices ↑ → real incomes ↓ → C ↓; protected firms gain, consumers lose more.
- **Interest rates:** Fed raises rates → borrowing dearer → C and I ↓ → AD ↓ → inflation ↓, but output and jobs ↓; little effect on oil supply.

A · DATA RECALL (1 MARK EACH)

1. Real GDP growth in 2025: _____
2. Household consumption as % of GDP: _____
3. Current account balance, % of GDP, 2025: _____
4. Dollar share of world FX reserves: _____
5. Peak CPI inflation in 2022: _____
6. Federal deficit, FY2025: _____
7. Services as % of jobs: _____
8. Gini coefficient (World Bank, approx.): _____

B · MATCH THE EVIDENCE TO THE ECONOMIC CONCEPT

US EVIDENCE	LETTER	CONCEPT
1. Rising share prices lift household spending		A. Cost-push inflation
2. Petrol up 27% in a year after the Strait of Hormuz closes		B. Crowding out
3. Rust Belt factory workers cannot find similar jobs		C. Wealth effect
4. Government borrowing pushes up bond yields		D. Trade diversion
5. Imports switch from China to Vietnam and Mexico		E. Structural unemployment
6. CHIPS Act subsidies for new chip factories		F. Supply-side (industrial) policy

C · COMPLETE THE CHAINS

1. Tariff on imported steel → _____ → costs rise for car makers → _____
2. Fed raises interest rates → _____ → _____ → inflation falls.
3. Large budget deficits → _____ → bond yields rise → _____

D · EXAM-STYLE QUESTIONS

Extract. In 2025 US exports rose 6.2% to \$3.43 trillion and imports rose 4.8% to \$4.33 trillion. The goods deficit widened to \$1.24 trillion while the services surplus grew to \$340 billion. The current account deficit was \$1.12 trillion, 3.6% of GDP. Household consumption makes up about 68% of US GDP, and the personal saving rate is around 4–5%.

(5 marks) With reference to the extract, explain one reason why the US has a large deficit on trade in goods.

(8 marks) Examine how higher tariffs on imports may affect US consumers.

E · PLAN A 25-MARK ANSWER

(25 marks) Evaluate whether a developed economy such as the United States should reduce its budget deficit.

ARGUMENTS FOR (WITH US EVIDENCE)	ARGUMENTS AGAINST / DIFFICULTIES
OVERALL JUDGMENT: IT DEPENDS ON...	

A · DATA RECALL

1. 2.3%
2. About 68%
3. -3.6% (deficit of \$1.12 trn)
4. 56.7% (accept about 57%)
5. 9.1% (June 2022)
6. \$1.8 trillion (about 6% of GDP)
7. About 80% (79.6%)
8. About 0.42

B · MATCHING

1 → C · 2 → A · 3 → E · 4 → B · 5 → D · 6 → F

C · CHAINS

1. Price of imported steel rises (domestic steel makers can also raise prices) → car prices rise / car makers less competitive, so output or jobs may fall.
2. Borrowing becomes dearer and saving more attractive → consumption and investment fall, so AD shifts left.
3. Government sells more bonds / demand for loanable funds rises → private borrowing costs rise and private investment is crowded out; interest costs on the debt rise.

D · EXAM-STYLE GUIDANCE

5 marks: Define trade in goods balance or current account (1). Identify a reason from the extract: very high consumption (~68% of GDP) and low saving (~4–5%), so strong demand for goods is partly met by imports (1–2). Explain the chain: high C → high spending on imports → imports (\$4.33 trn) exceed exports (\$3.43 trn) (2). Alternative: comparative advantage in services, shown by the \$340 bn services surplus, so the US imports goods. Must use extract data.

8 marks: Knowledge/analysis: tariff raises the domestic price of imports; consumer surplus falls; less choice; real incomes fall; regressive effect on lower-income households; domestic producers may also raise prices. Diagram: world supply + tariff. Evaluation (2 points for full marks): pass-through may be partial (foreign exporters cut prices); depends on PED and substitutes; trade diversion to untariffed countries (Vietnam, Mexico); effect estimated at about \$1,100 a year per household (Yale Budget Lab).

E · 25-MARK PLAN: POINTS TO LOOK FOR

For reducing the deficit

- Deficit ~6% of GDP at near full employment: pro-cyclical.
- Debt 101% of GDP (2026) → 120% by 2036 (CBO).
- Net interest above defence: opportunity cost.
- Crowding out; higher bond yields; inflation risk.
- Fiscal space needed for the next recession.

Against / difficulties

- Reserve currency: strong demand for Treasuries keeps borrowing cheap.
- Spending cuts or tax rises reduce AD (multiplier); risk of recession.
- Public investment can raise LRAS and pay for itself over time.
- Cuts to Medicaid or welfare raise inequality.
- Political limits: tax cuts popular, shutdowns.

Judgment: a gradual reduction while the economy is strong is safer than sudden austerity. The case is stronger if interest rates stay above nominal GDP growth. Compare Japan (high debt, no crisis) and the UK (2022 gilt crisis).