

The Business Cycle

How healthy is the American Economy?

4-8

The Business Cycle

There are ups and downs to any economy

The name business cycle makes it sound like the cycle is very predictable.

The opposite is true.

Peaks and Trough are extremely difficult to predict.

The leading indicators are GDP, Unemployment, and Price Level.

Other leading indicators:

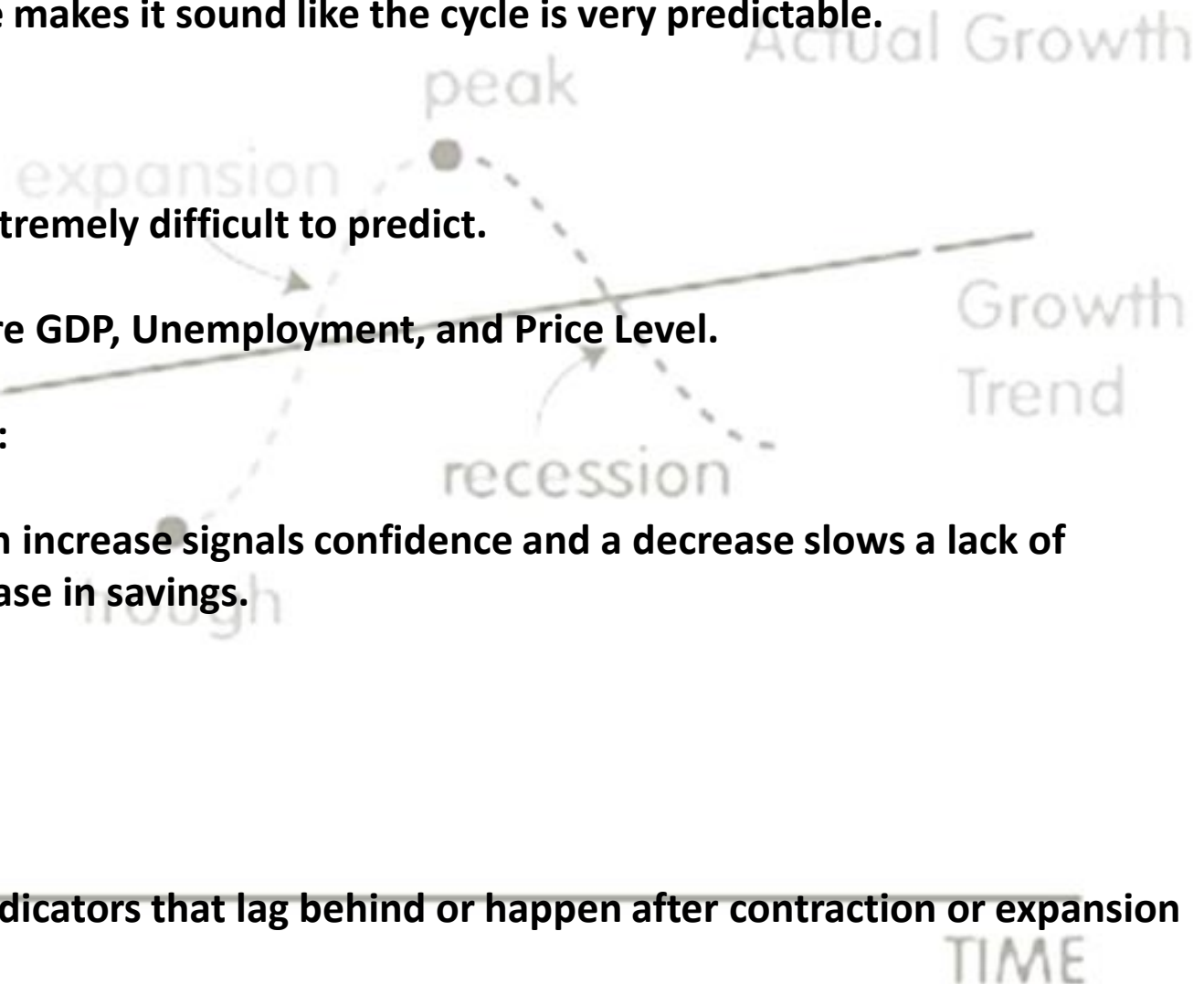
Housing construction- an increase signals confidence and a decrease slows a lack of confidence and an increase in savings.

Others:

Real GDP

Lagging indicators are indicators that lag behind or happen after contraction or expansion

Unemployment rate



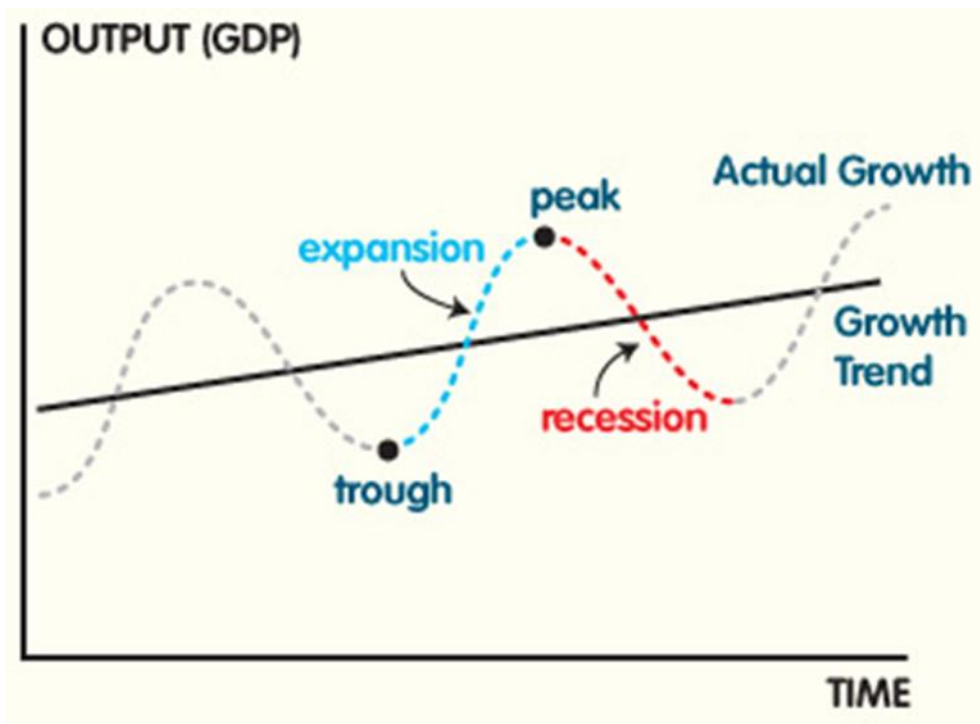
- 20. Outline the 4 phases of the business cycle and explain what happens to GDP, Price, and unemployment rates during these periods.**
- 21. What is a recession? How much should the government get involved to prevent recession?**
- 22. What phase of the business cycle are we currently in? What is your evidence to support your claim?**
- 23. Should the government attempt to manipulate the business cycle? If so how, and if not why not?**

The Business Cycle

Economies are always changing

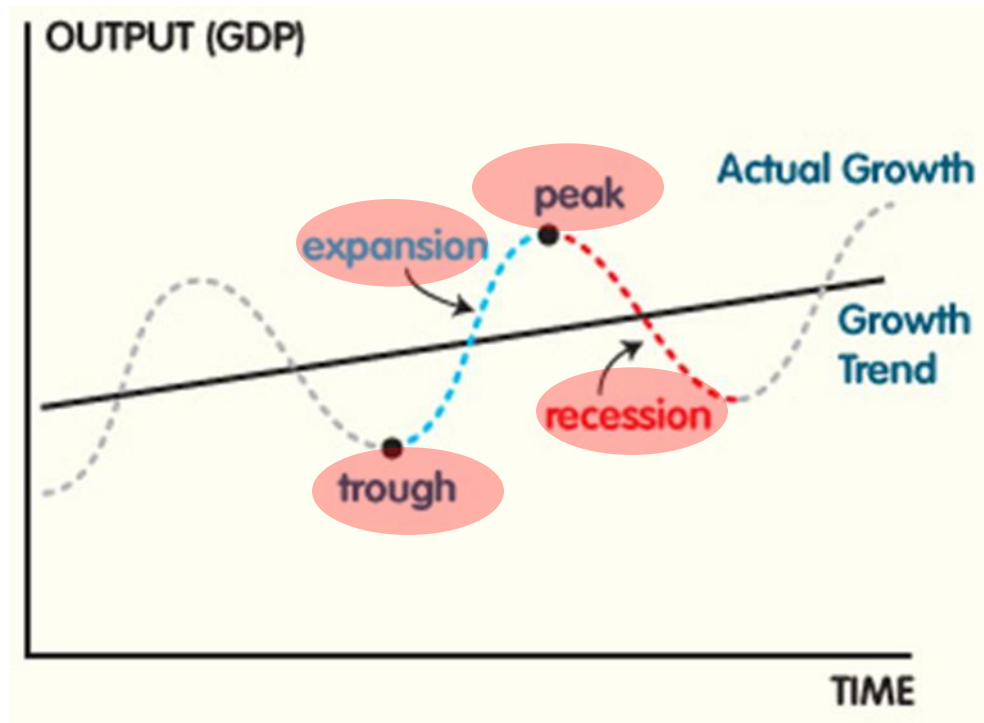
There are periods of growth and decline. Booms and Bust

This is the business cycle.



Outline the 4 phases of the business cycle and explain what happens to GDP, Price, and unemployment rates during these periods.

The Business Cycle



| Phases of business cycle | real gdp | unemployment rate | Price Level |
|--------------------------|------------------|----------------------|--|
| Expansion | increasing | generally decreasing | increasing |
| Peak | stops increasing | stops decreasing | stops increasing may start to decrease |
| Contraction | decreasing | generally increasing | generally decreasing |
| Trough | stops decreasing | stops increasing | stops decreasing and may start to increase |
| Stagflation | decreasing | increasing | increasing |

What is a recession?

The Business Cycle

Other names.

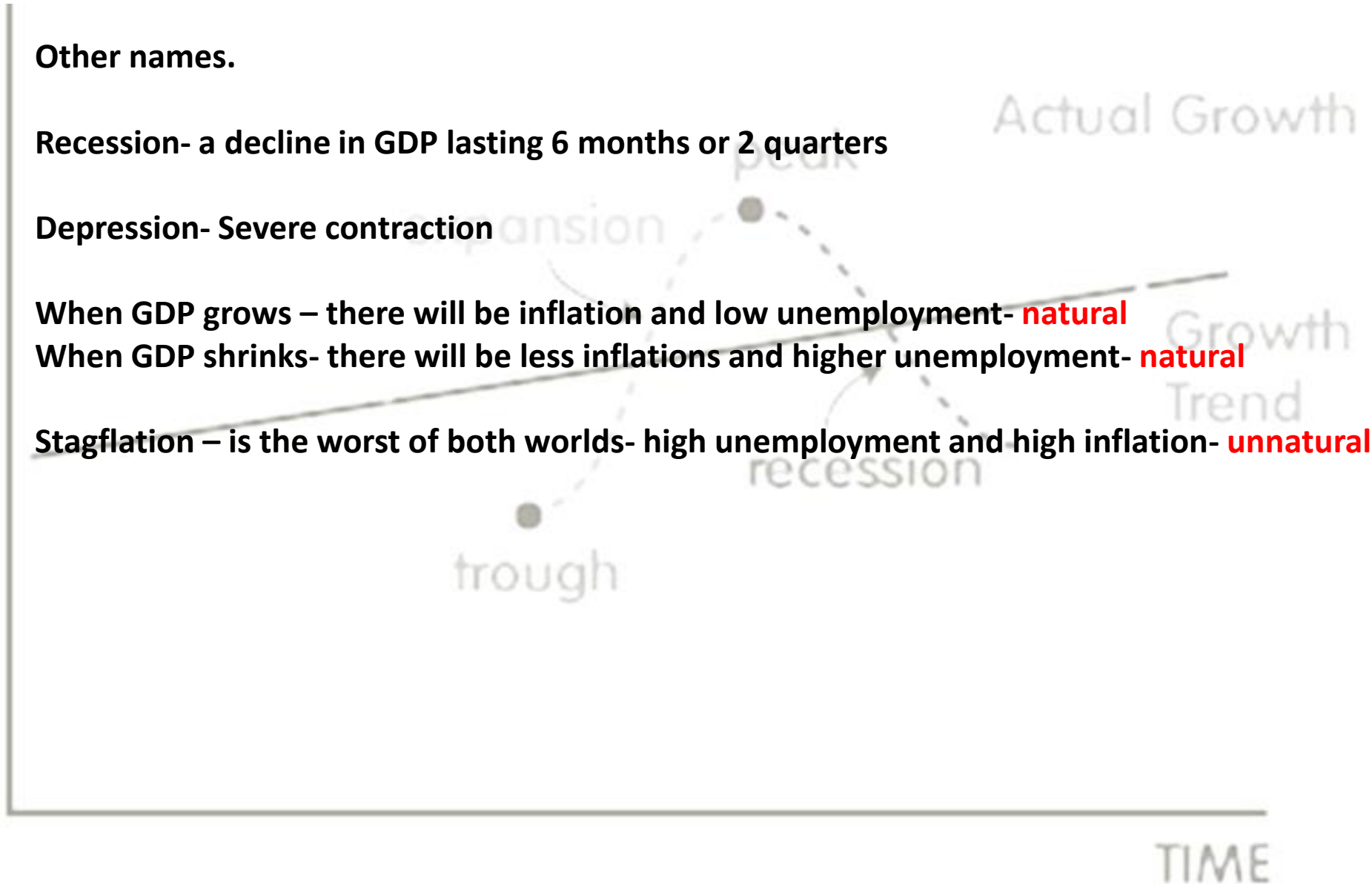
Recession- a decline in GDP lasting 6 months or 2 quarters

Depression- Severe contraction

When GDP grows – there will be inflation and low unemployment- **natural**

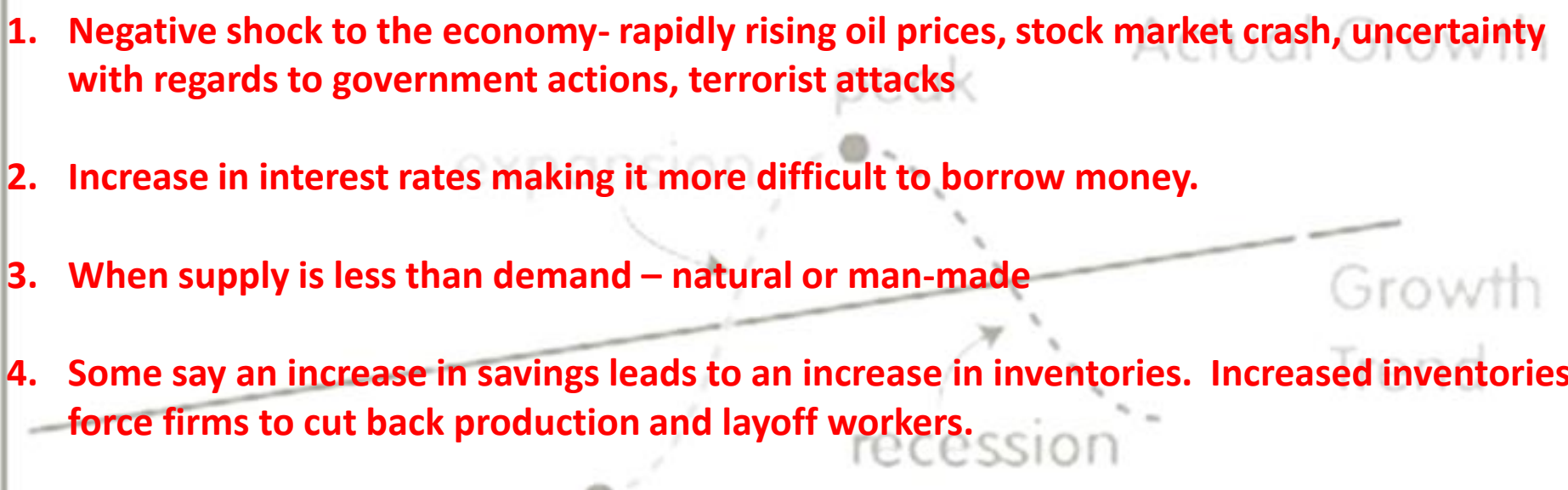
When GDP shrinks- there will be less inflations and higher unemployment- **natural**

Stagflation – is the worst of both worlds- high unemployment and high inflation- **unnatural**



The Business Cycle

What causes the dip?

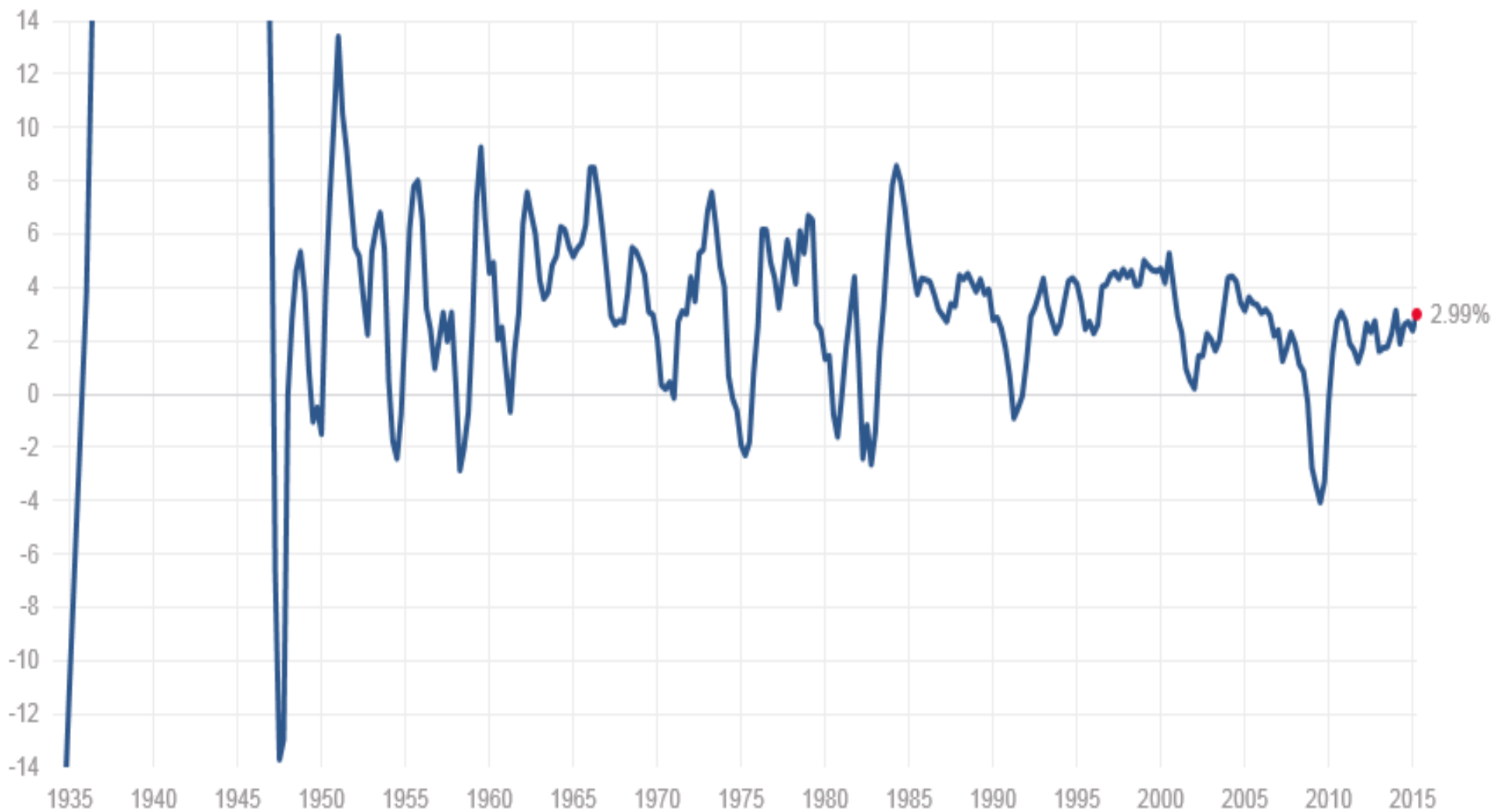
1. Negative shock to the economy- rapidly rising oil prices, stock market crash, uncertainty with regards to government actions, terrorist attacks
 2. Increase in interest rates making it more difficult to borrow money.
 3. When supply is less than demand – natural or man-made
 4. Some say an increase in savings leads to an increase in inventories. Increased inventories force firms to cut back production and layoff workers.
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What causes Growth?

1. Confidence in market caused by knowledge- uncertainty is the worst enemy.
 2. Increased production causes firms to hire
 3. New technology
 4. Government?????- this is the question that needs to be answered for the unit.
- TIME

What phase of the business cycle are we currently in? What is your evidence to support your claim?

U.S. Real GDP Growth Rate



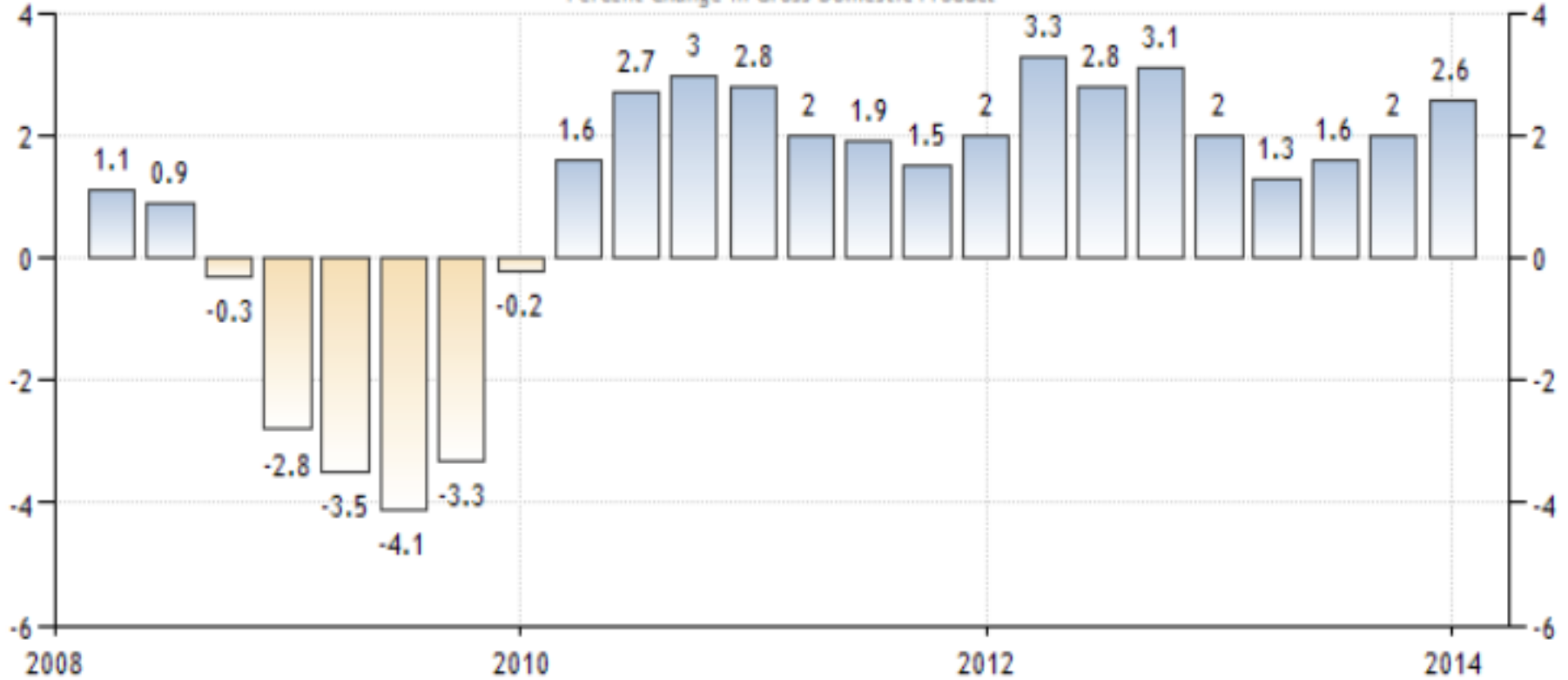
Locate 2 periods of Contraction

Locate 2 periods of Recession

Current G.D.P.

UNITED STATES GDP ANNUAL GROWTH RATE

Percent Change in Gross Domestic Product

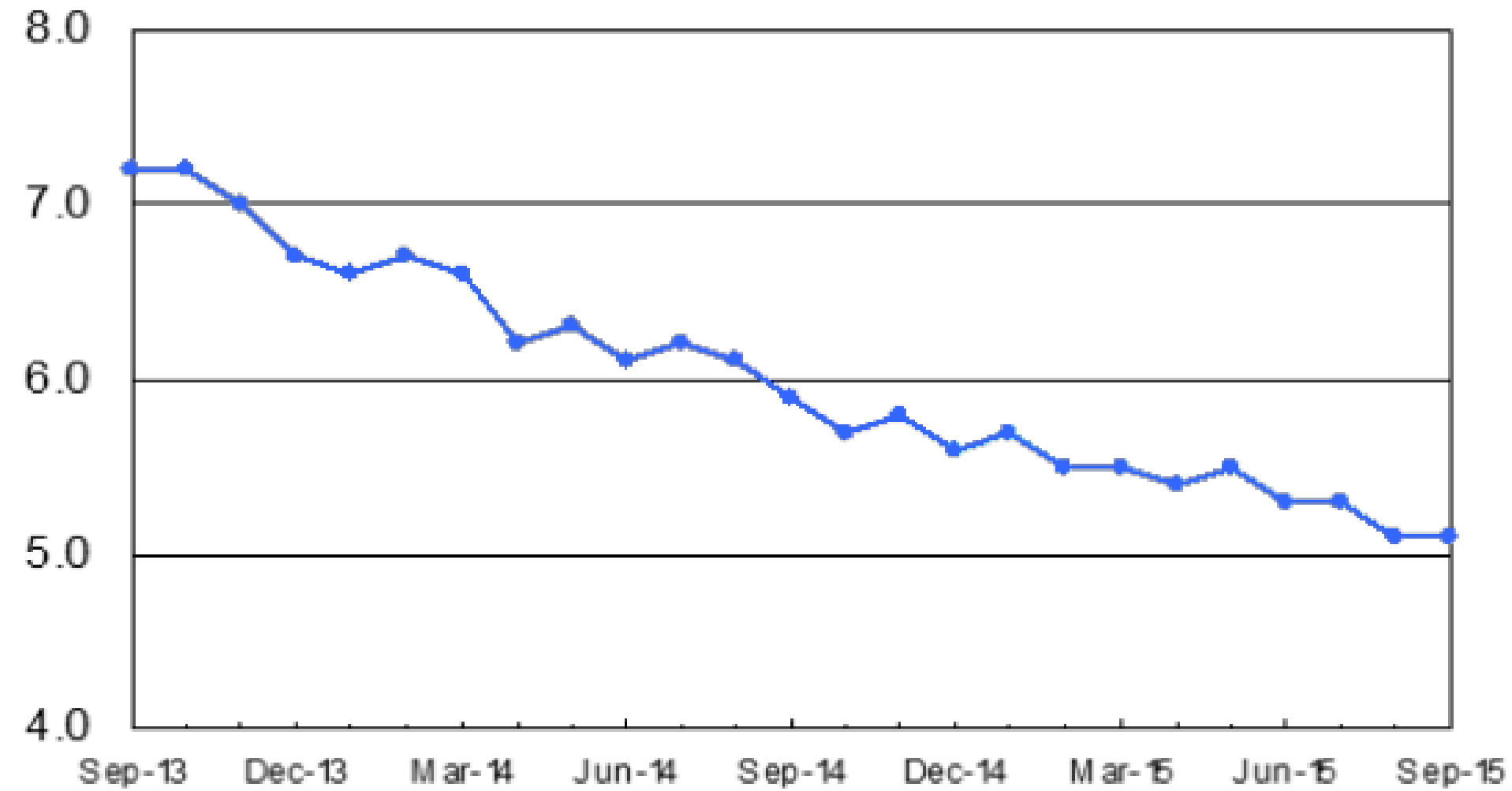


SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

<http://www.multpl.com/us-gdp-growth-rate/table/by-quarter>

Current unemployment rate

Percent



Why can this be both an over estimation and an under estimation?

When was our last recession?

What phase of the business cycle
are we currently in?

