

Business Cycle: How an economy grows and declines over time

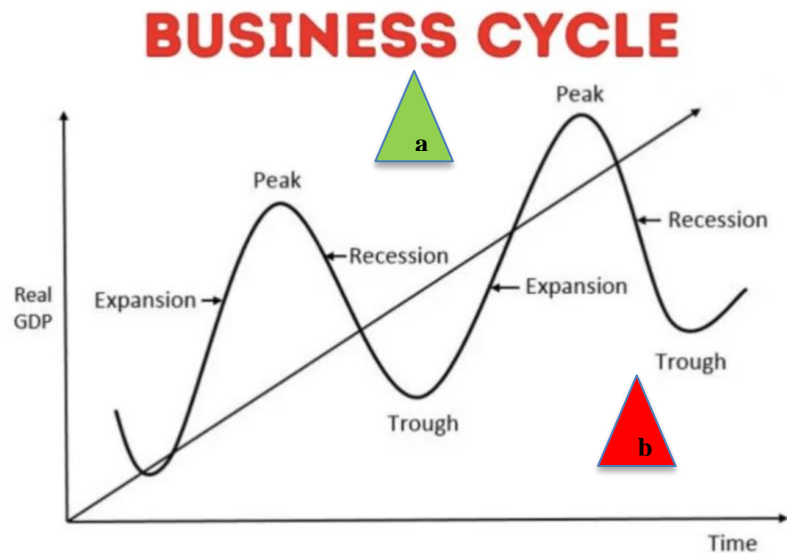
GDP

Gross = total.

Domestic = whole economy.

Product = output of goods + services.

'real' refers to real growth i.e. more output of cars and boats, services etc. (Real refers to growth that is adjusted for inflation)



Note: real **GDP** is the gross domestic product. This shows the performance of the economy over time and some key stages are evident.

Peak: (sometimes called boom) = period of high growth, high output, high employment

Trough: (sometimes called slump or depression) = period of high unemployment, low output and no growth

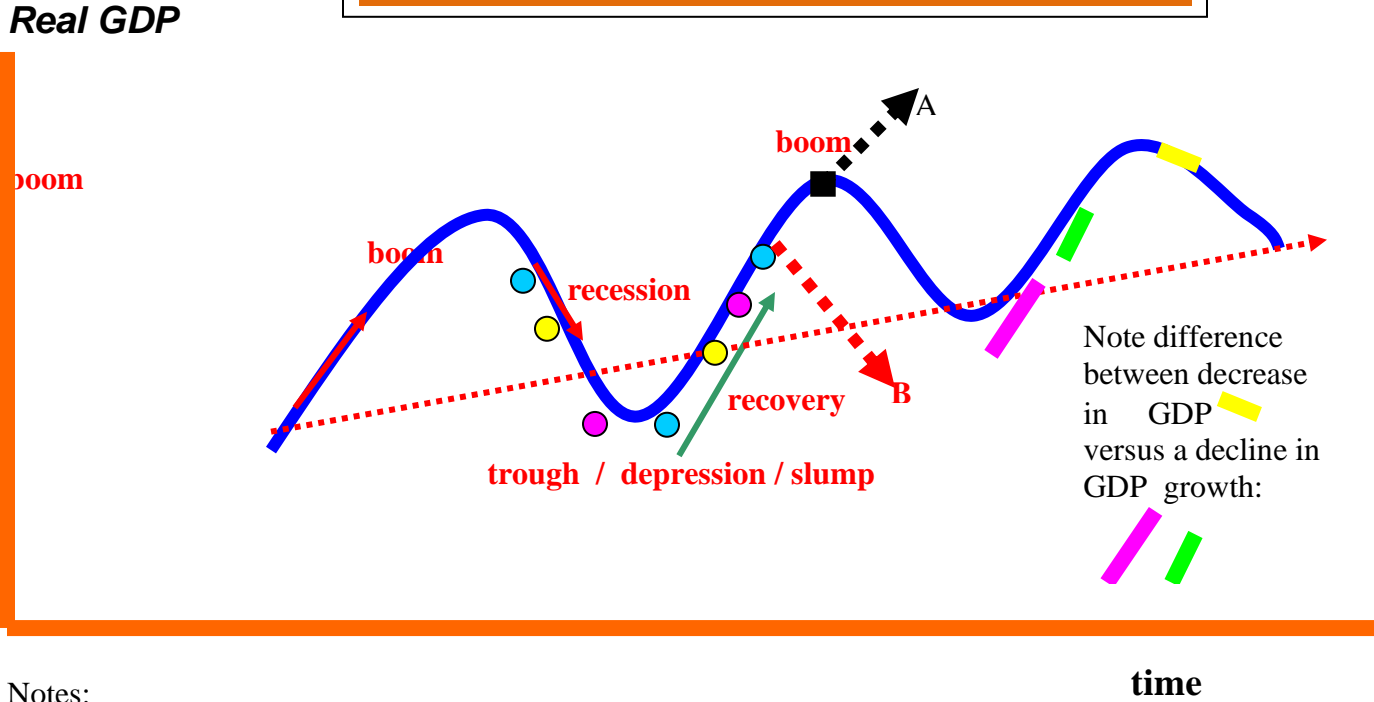
Recession: = beginning of a slow down where output falls and crisis begins

Expansion: = period of recovery where confidence returns and economy maintains growth over time

Trend line: shows average performance over time and over time economies grow

Economic Cycle¹: How the macroeconomy performs over time²

Business Cycle 2



Notes:

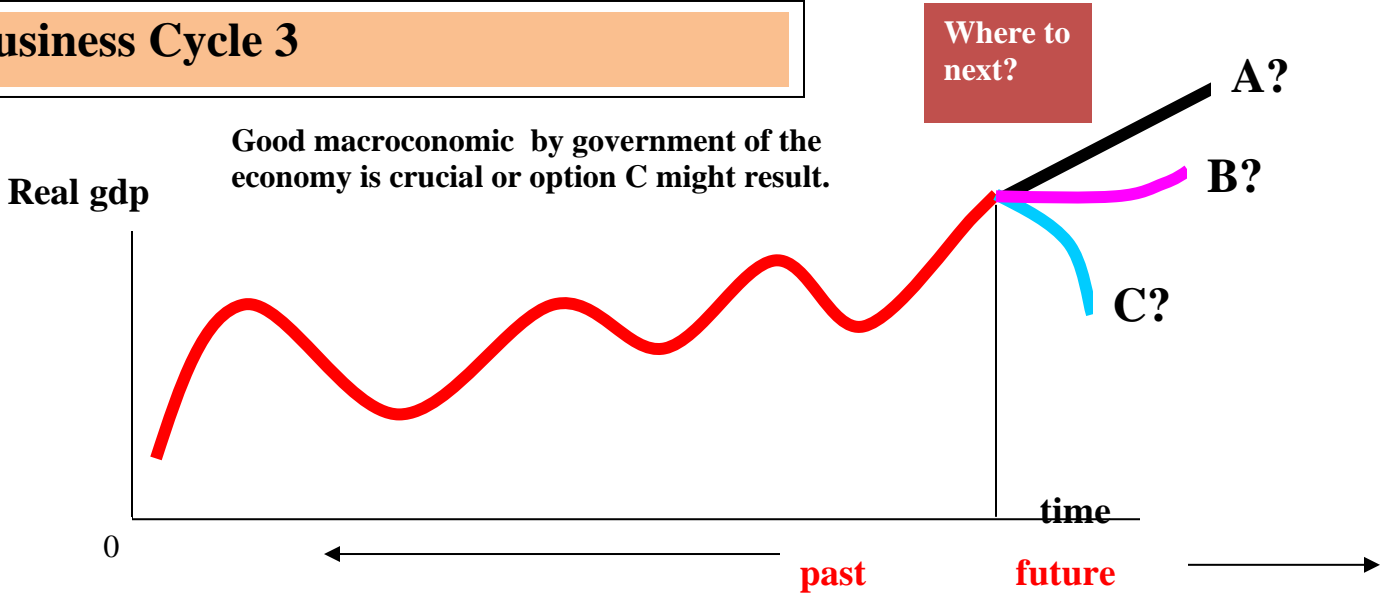
- Diagram highlights the cycle that economies have demonstrated over time Long run trend note the upward trend over time a recession is defined as two consecutive quarters (of a year) of falling GDP (note: there can still be annual growth during this period)

¹ Source: Advanced Economics through diagrams by Gillespie p. 92

² Can be written as economic, business or trade cycle

Big Question: What is the role for the government in managing the macroeconomy?

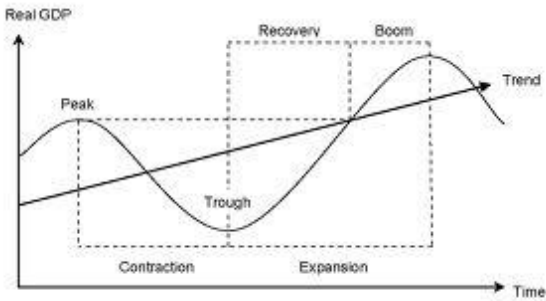
Business Cycle 3



See gdp (Y) on webnote 710

Variations on model- note that b) shows a growth line that shows the negative growth.

a)



b)

