



PUNJAB UNIVERSITY COLLEGE OF INFORMATION TECHNOLOGY

INTRODUCTION TO ECONOMICS

Module 3

FIZZA AFTAB

Reference Book : Economics by Paul A. Samuelson



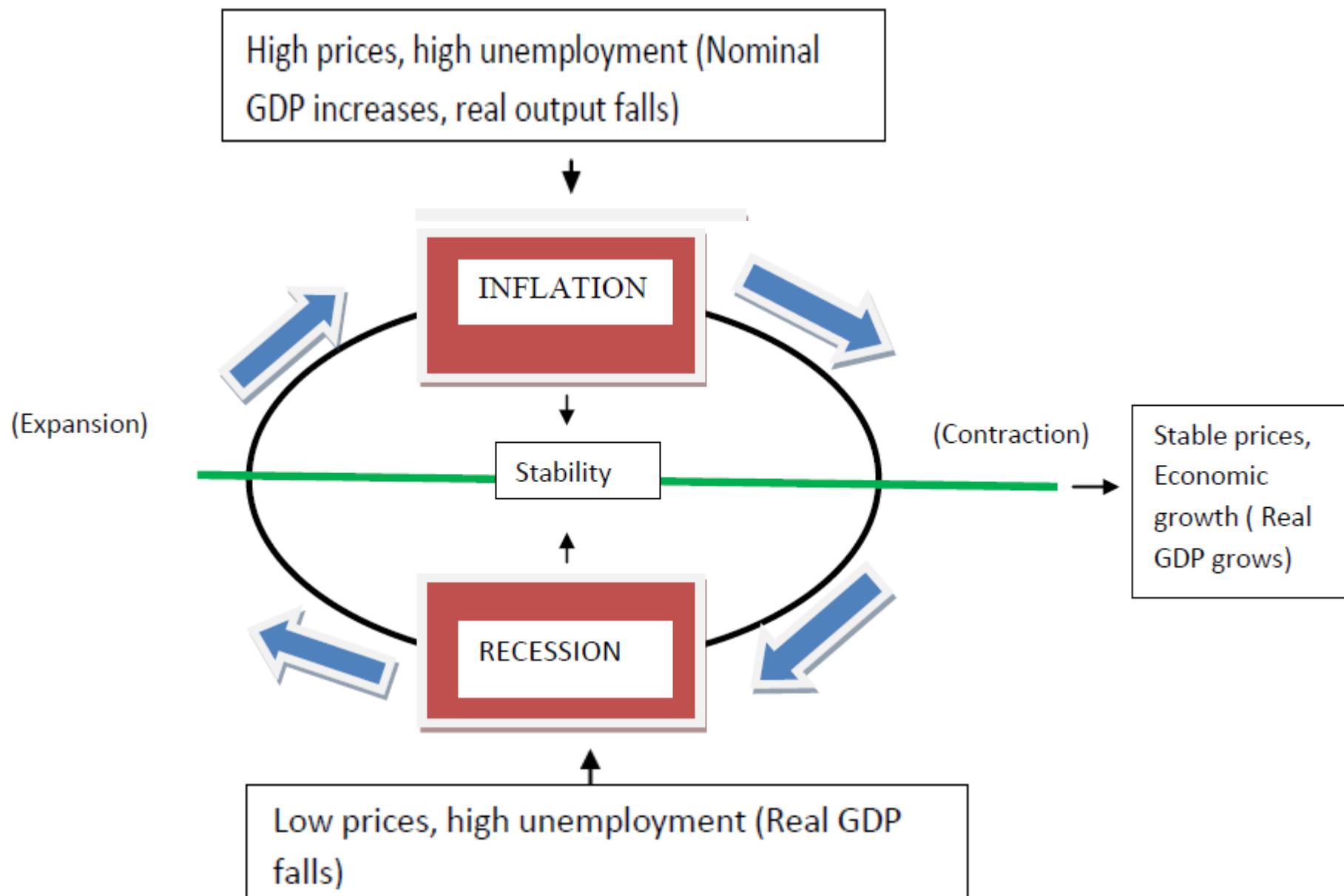
Business Cycle

BUSINESS CYCLE

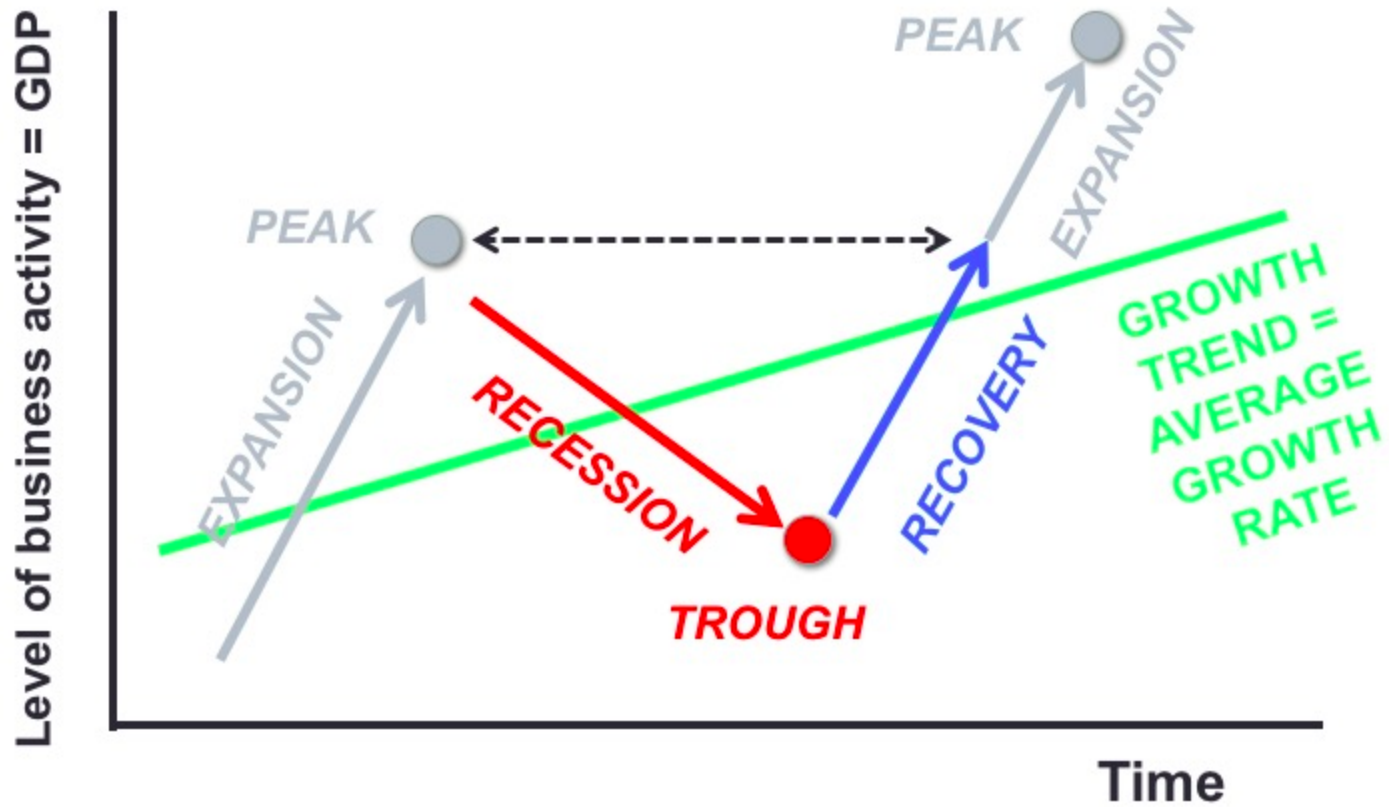
The short-term fluctuations in output, employment, financial conditions, and prices that we call the *business cycle*.

Or

all market economies show patterns of expansion and contraction known as business cycles.



Phases of the Business Cycle

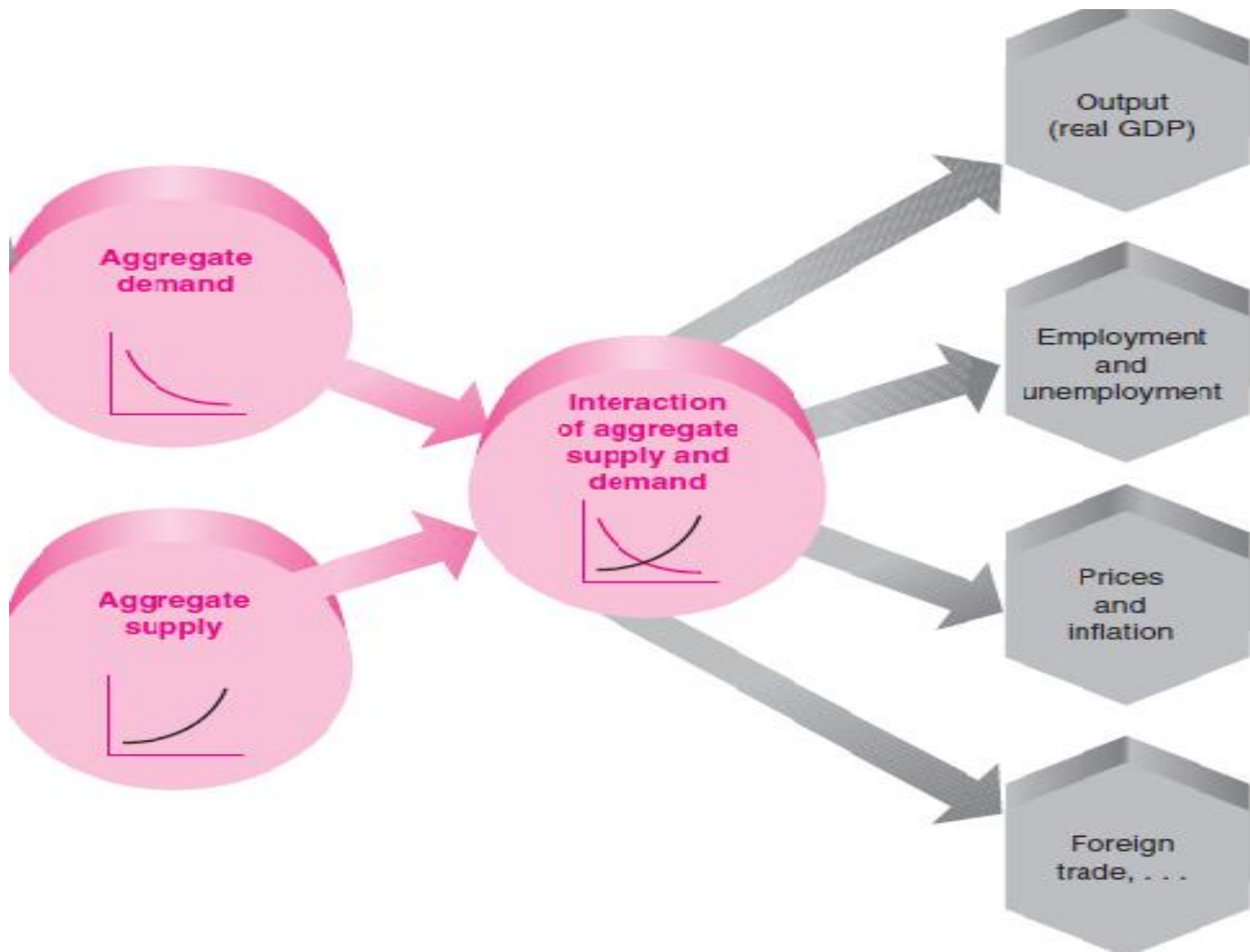


Aggregate supply

Aggregate supply refers to the total quantity of goods and services that the nation's businesses willingly produce and sell in a given period. Aggregate supply (often written AS) depends upon the price level, the productive capacity of the economy, and the level of costs.

Aggregate demand

Aggregate demand refers to the total amount that different sectors in the economy willingly spend in a given period. Aggregate demand (often written AD) equals total spending on goods and services. It depends on the level of prices, as well as on monetary policy, fiscal policy, and other factors

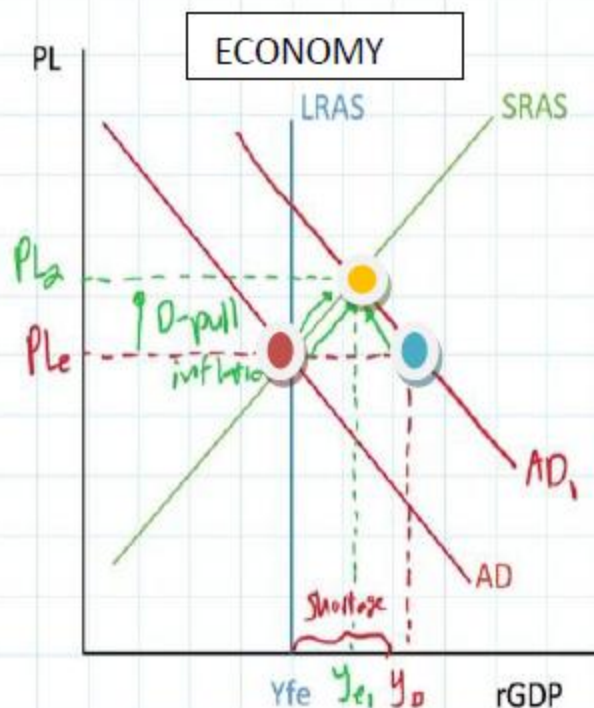


Demand and Supply shocks in the AD/AS model

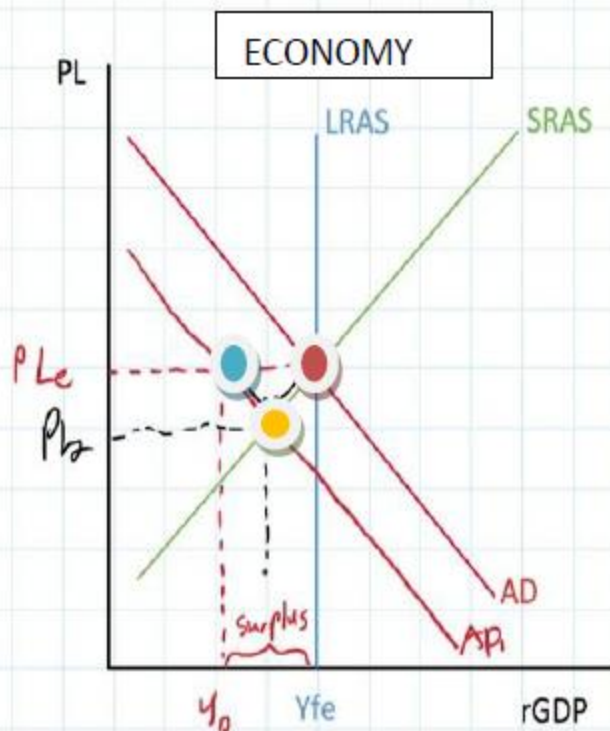
Aggregate demand shocks:

Positive:
An \uparrow in AD resulting from
an \uparrow in C, I, G, or X_n

Negative:
A \downarrow in AD resulting from
a \downarrow in C, I, G, X_n



INFLATION



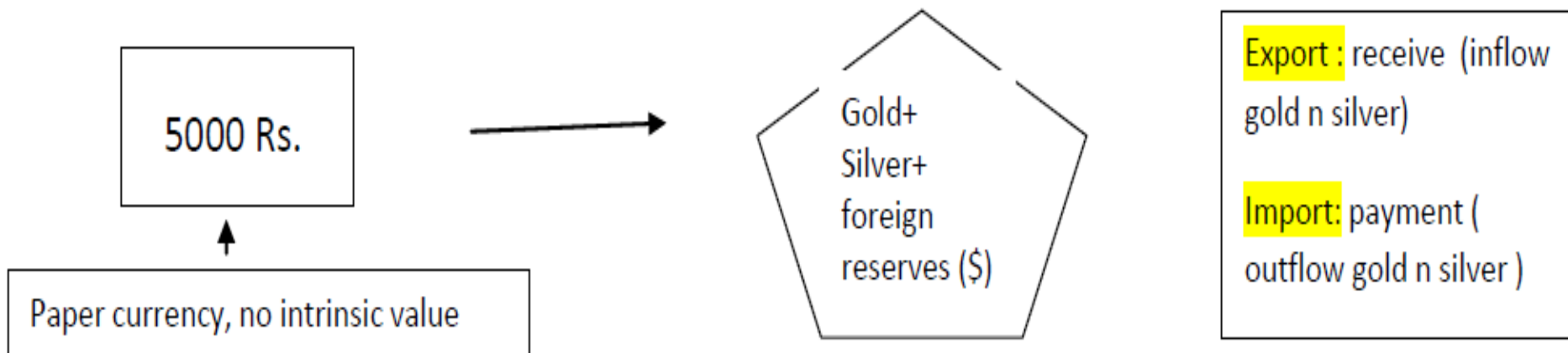
RECESSION

AS: total quantity of goods & services nation's businesses willingly produce and sell in a given period

AD: Total spending on goods & services by different sectors of economy (C+I+G+ X_n)

Money Supply: Quantity of money in circulation in certain point of time.

Money → Prices → Inflation/Recession
(money is anything used as a commonly accepted medium of exchange)



Failure of market economy

Government intervention

Macroeconomic problems:

Business cycles (high inflation and unemployment)

Stabilize through macroeconomic policies

Slow economic growth

Stimulate growth