Principles of Economics (Spring 2024)
Lecture 20
Business Cycle

Part I

Short-Run Economic Fluctuations

- **Business Cycle** – fluctuation in the economy. It usually refers to the short-run fluctuations in real GDP around its long-run growth trend, i.e., natural level of output.
  - **Natural Level of Output** – The production of goods and services that an economy achieves in the long-run when unemployment is at its normal rate, i.e., natural rate of unemployment. Also called full-employment output, potential output, or potential real GDP.
    - It is a nature of the economy that is determined by the resources and technology of the economy.
- **Expansion** – A period of increasing real GDP.
- **Peak** – The point at which real GDP reaches its maximum during an expansion.
- **Recession** – A period of declining real incomes and rising unemployment, i.e., economic contraction, e.g., "The Great Recession": the downturn in 2008 and 2009, when real GDP for the U.S. economy fell by 4.0 percent from the fourth quarter of 2007 to the second quarter of 2009, and the unemployment rate rose from 4.4 percent in May 2007 to 10.0 percent in October 2009.
  - **Depression** – A severe recession.
- **Trough** – The point at which real GDP reaches its lowest level during a recession.
- **Recovery** – An expansion in economic activity after a trough.

CS 扫描全能王
3亿人都在用的扫描App

- **Overheated** – A period during which output is above potential output and unemployment is below the natural rate of ~~ume~~ unemployment.

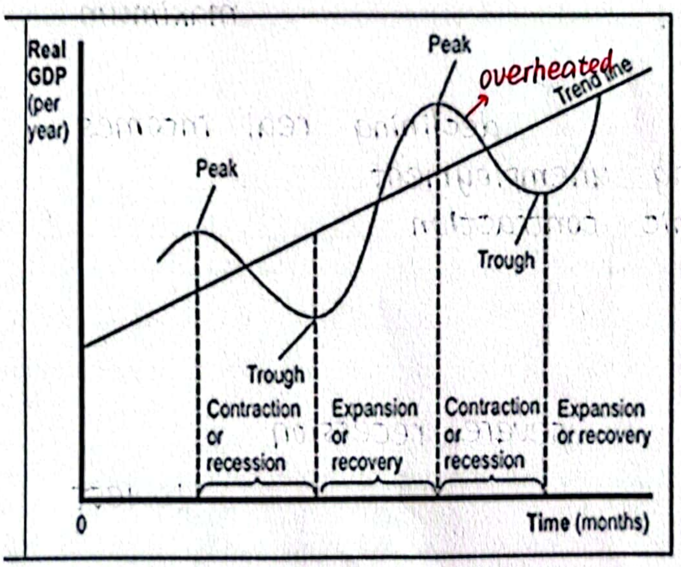
⇒ Problem: Supply cannot keep up with the demand for goods

⇒
- Price increases ~~p~~ rapidly
- Businesses offer higher wages to attract workers

  ⇒ Further pushes up prices

⇒ Create inflation

⇒ Hurt economic growth



扫描全能王
3亿人都在用的扫描App