

Unit 13

ECONOMIC FLUCTUATIONS AND UNEMPLOYMENT

Figure 13.2. UK GDP per capita (1875-2014).

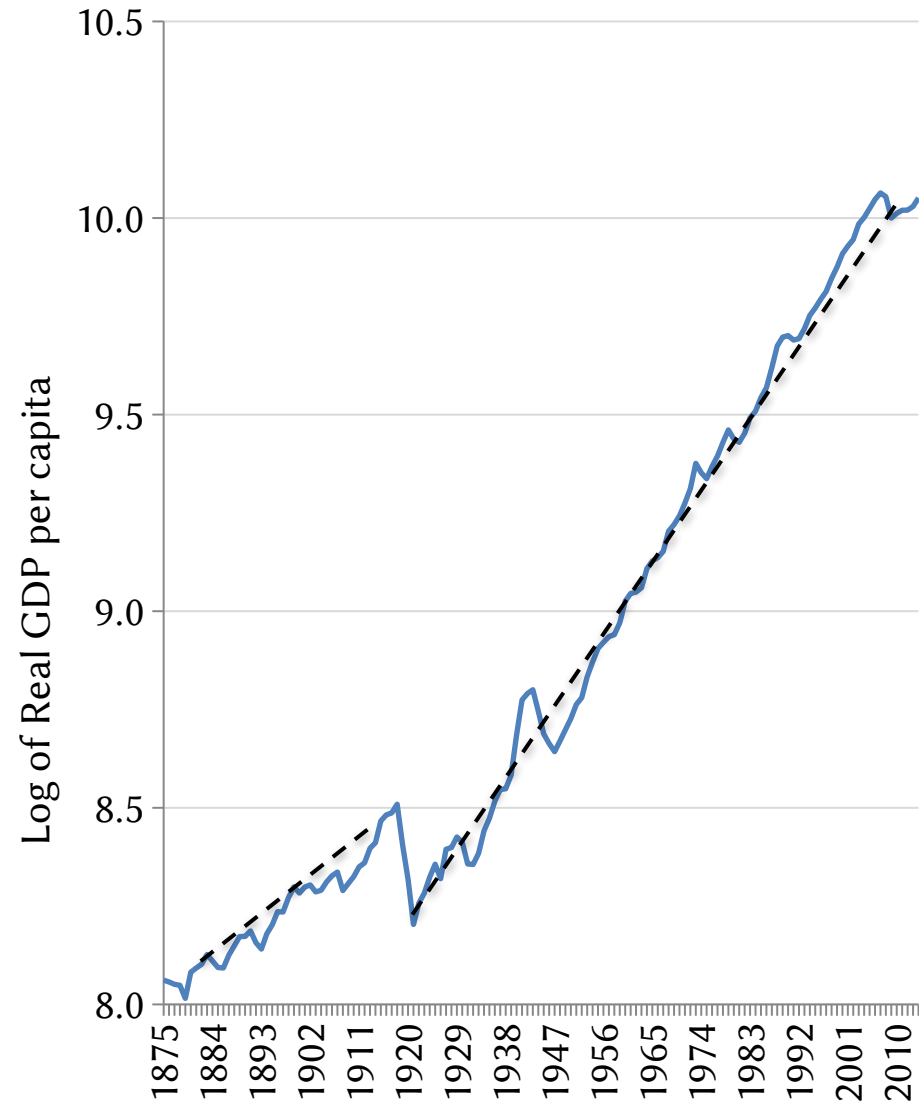
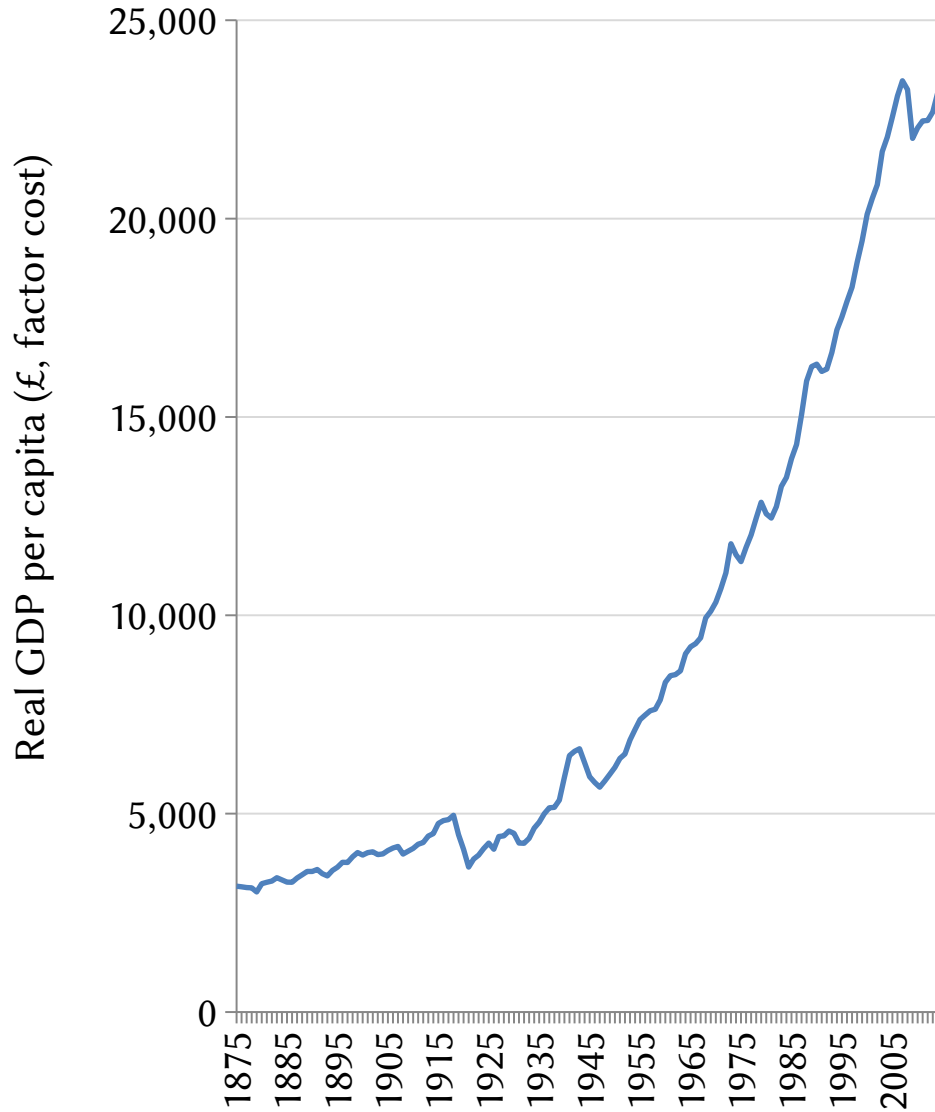


Figure 13.3. UK GDP growth and unemployment rate (1875-2014).

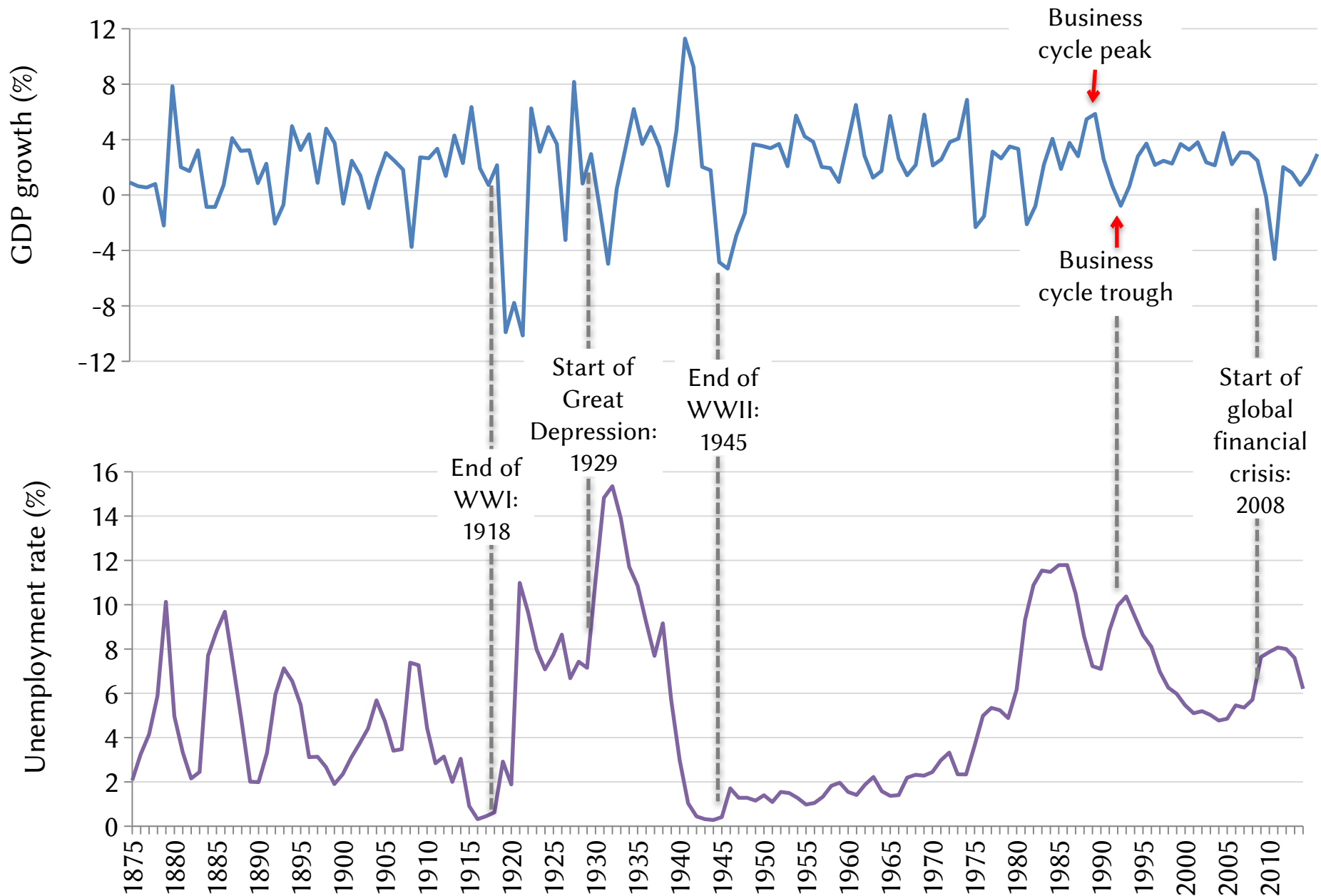


Figure 13.6. The circular flow model: Three ways to measure GDP.

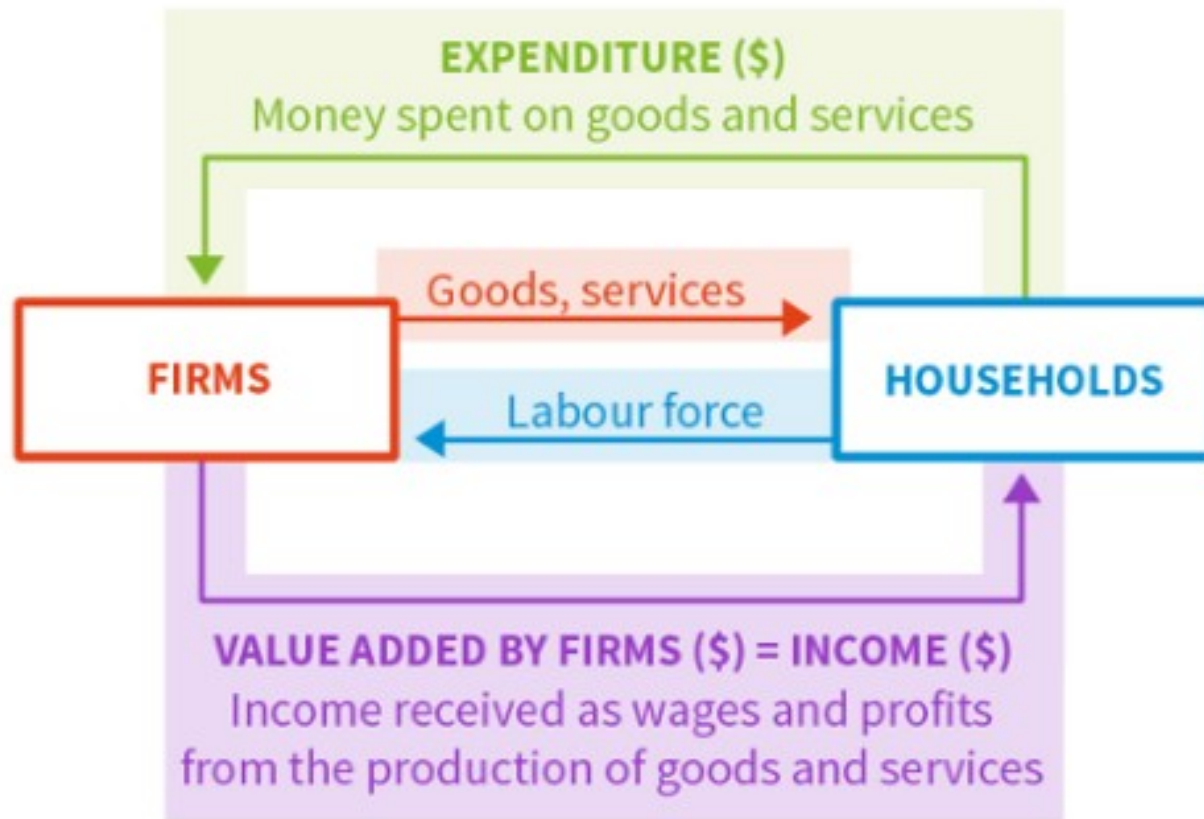


Figure 13.7. Decomposition of GDP in 2013 for the US, the Eurozone, and China.

	US	Eurozone (19 countries)	China
Consumption (C)	68.4%	55.9%	37.3%
Government spending (G)	15.1%	21.1%	14.1%
Investment (I)	19.1%	19.5%	47.3%
Change in inventories	0.4%	0.0%	2.0%
Exports (X)	13.6%	43.9%	26.2%
Imports (M)	16.6%	40.5%	23.8%

Figure 13.8. Contributions to percentage change in real GDP in the US in 2009.

$$\begin{aligned}
 \text{Percentage change in GDP} = & \quad (\text{percentage change in consumption} \times \text{share of consumption in GDP}) \\
 & + \\
 & (\text{percentage change in investment} \times \text{share of investment in GDP}) \\
 & + \\
 & (\text{percentage change in government spending} \times \text{share of government spending in GDP}) \\
 & + \\
 & (\text{percentage change in net exports} \times \text{share of net exports in GDP})
 \end{aligned}$$

	GDP	CONSUMPTION	INVESTMENT	GOVERNMENT SPENDING	NET EXPORTS
2009	-2.8	-1.06	-3.52	0.64	1.14

Figure 13.10. Consumption smoothing through our lifetime.

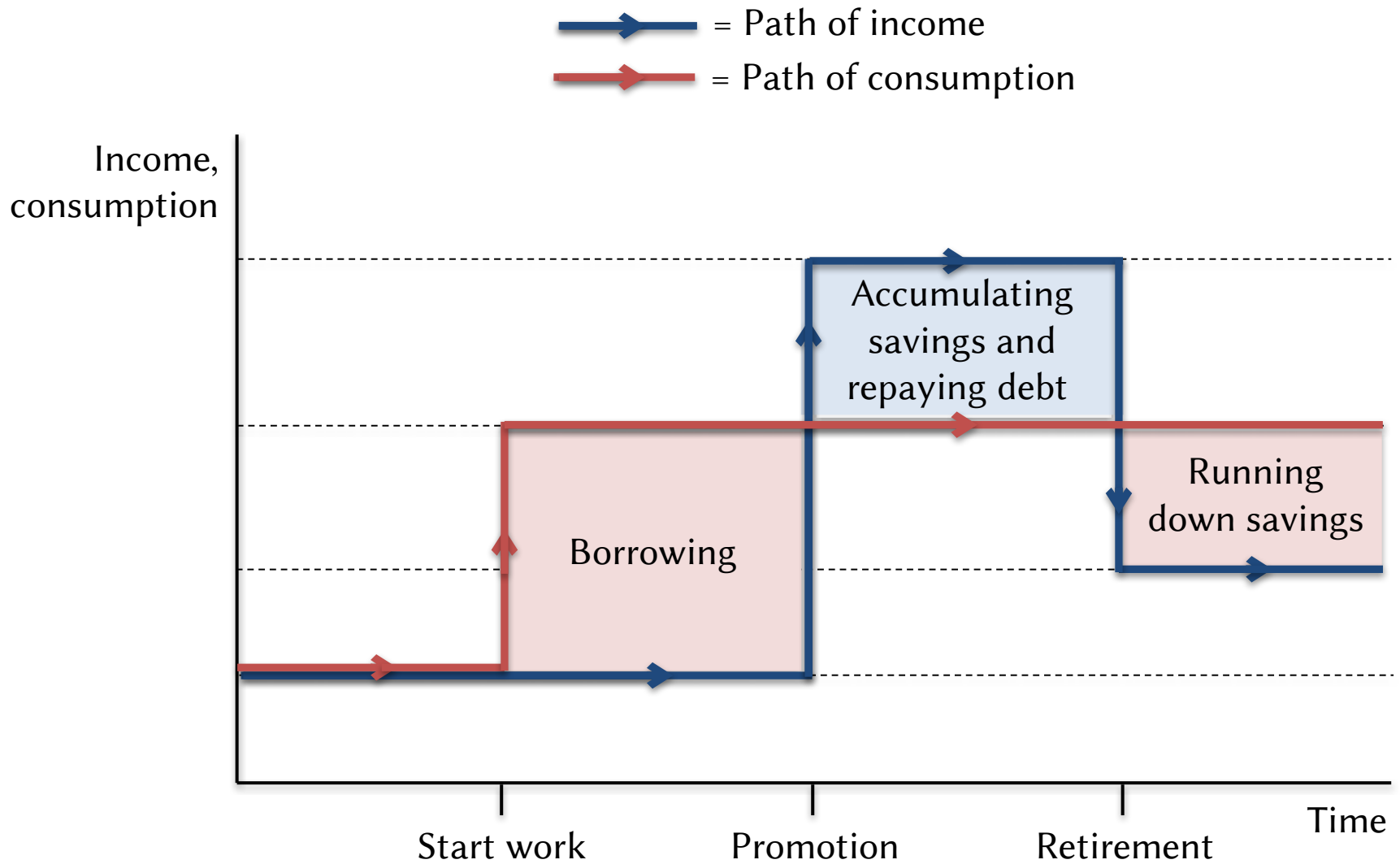


Figure 13.11. Consumption when credit constraints bind: An anticipated rise in income.

 = Path of income  = Path of consumption

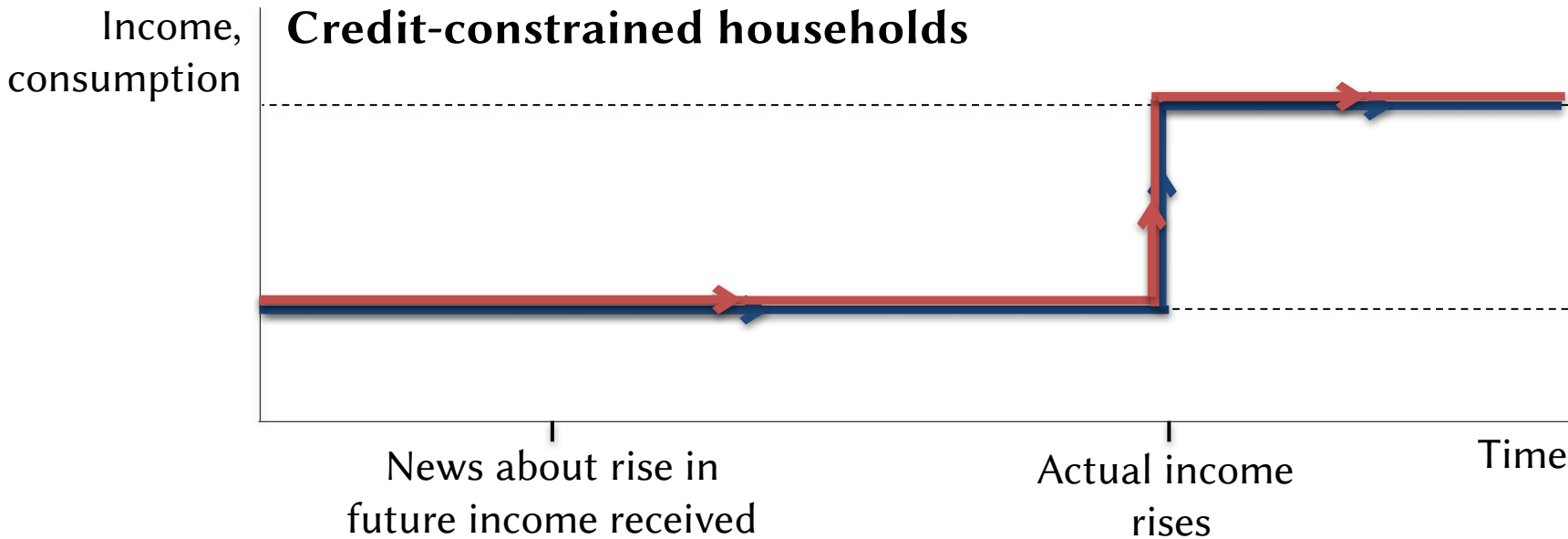
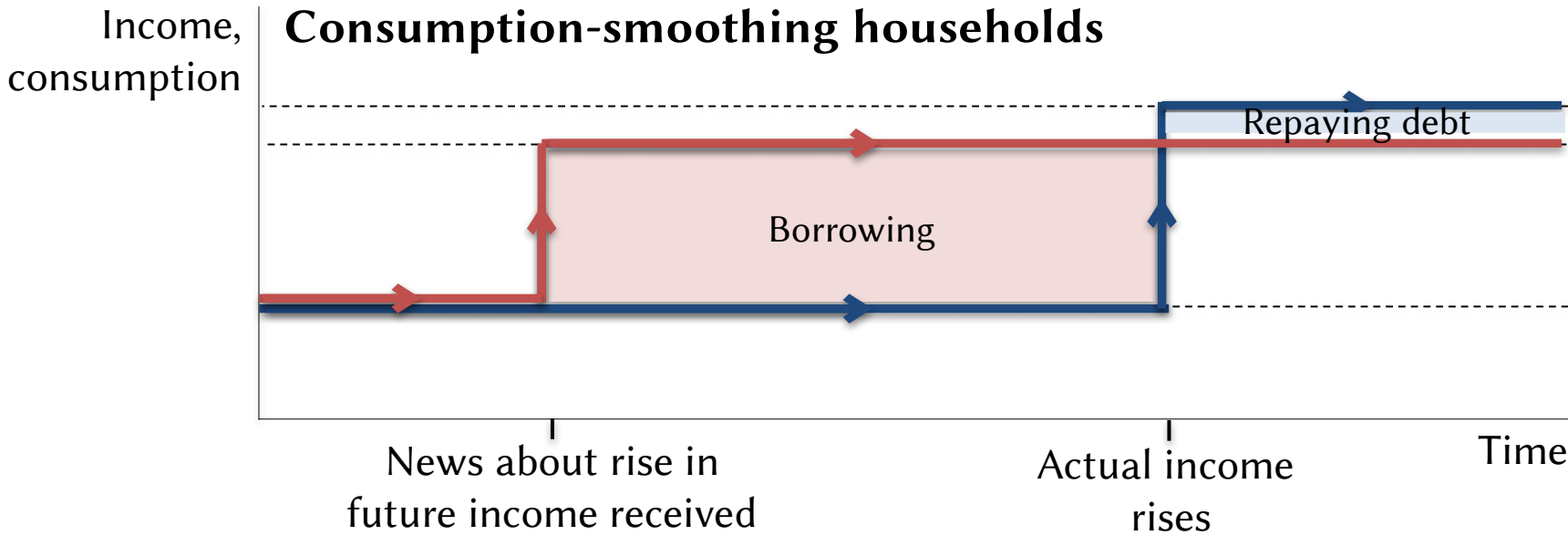


Figure 13.12. Credit-constrained and unconstrained households: An unanticipated temporary fall in income.

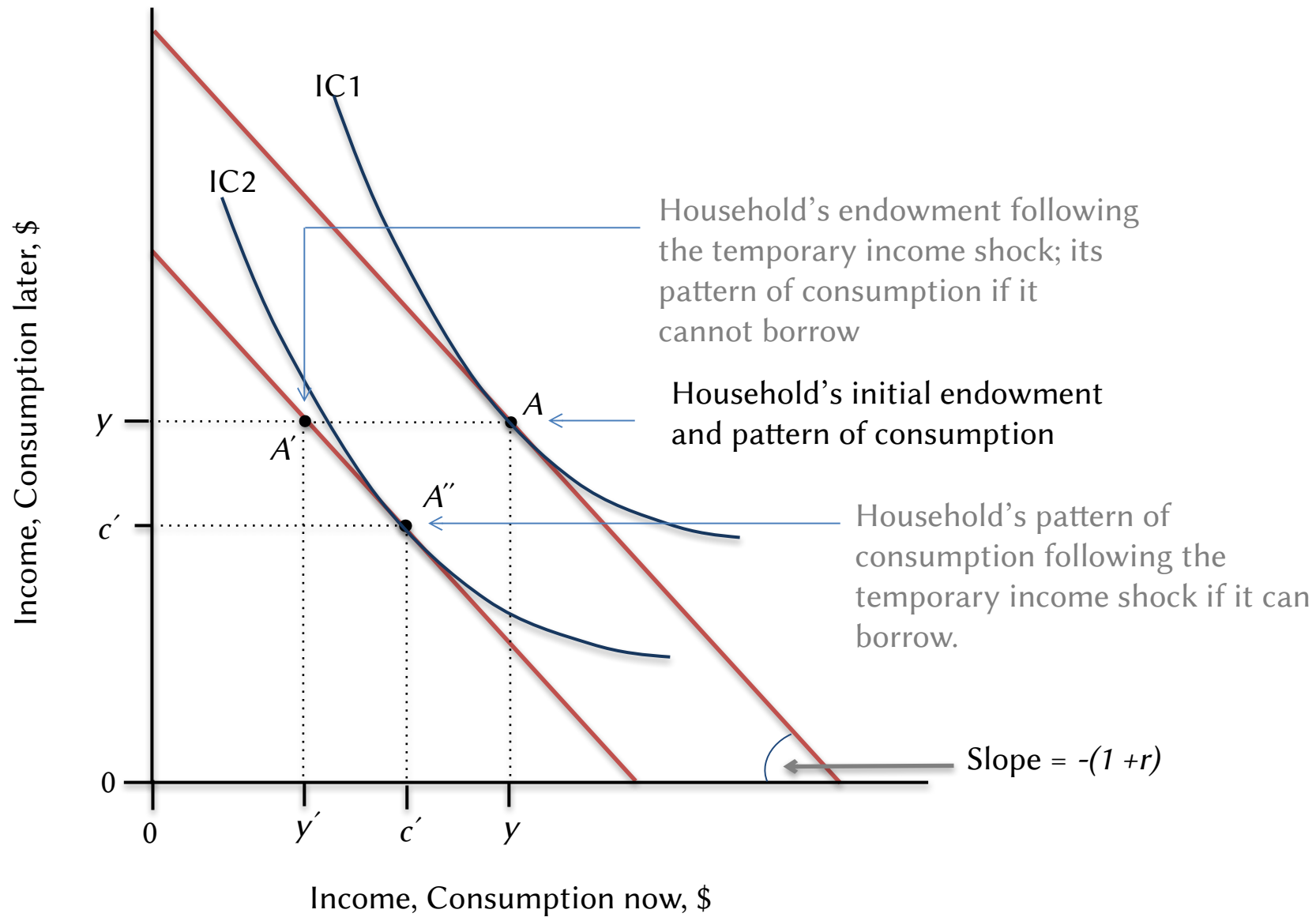


Figure 13.13. Consumption when households are weak-willed: An anticipated fall in income.

→ = Path of income → = Path of consumption

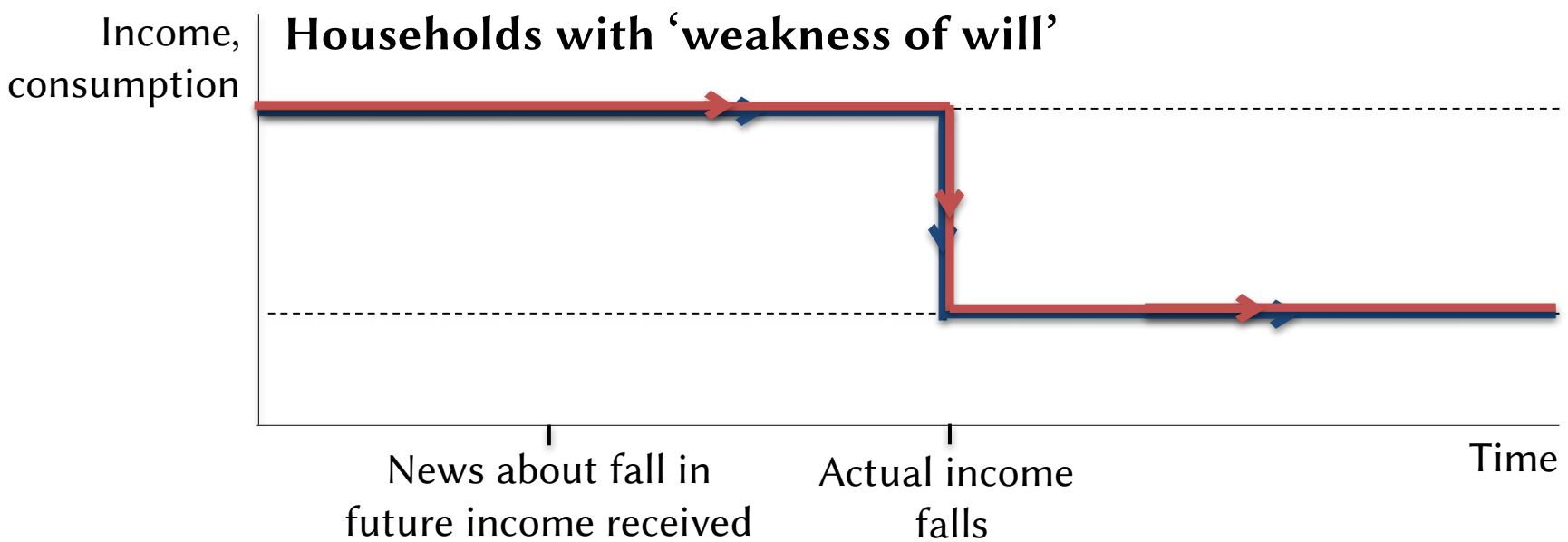
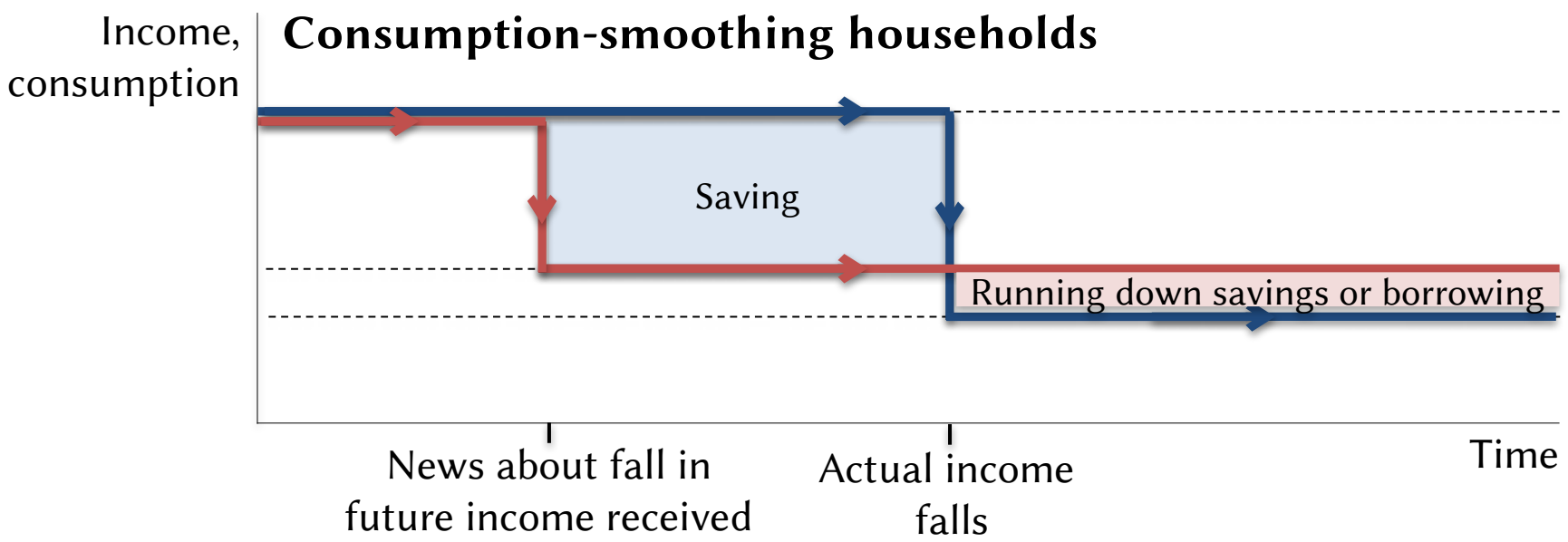


Figure 13.15. Investment decisions as a coordination game.

		B's profit	
		'B' INVESTS	'B' DOES NOT INVEST
A's profit	'A' INVESTS	100 100	80 -40
	'A' DOES NOT INVEST	-40 80	10 10

Figure 13.18a. UK GDP growth (1875-2014).

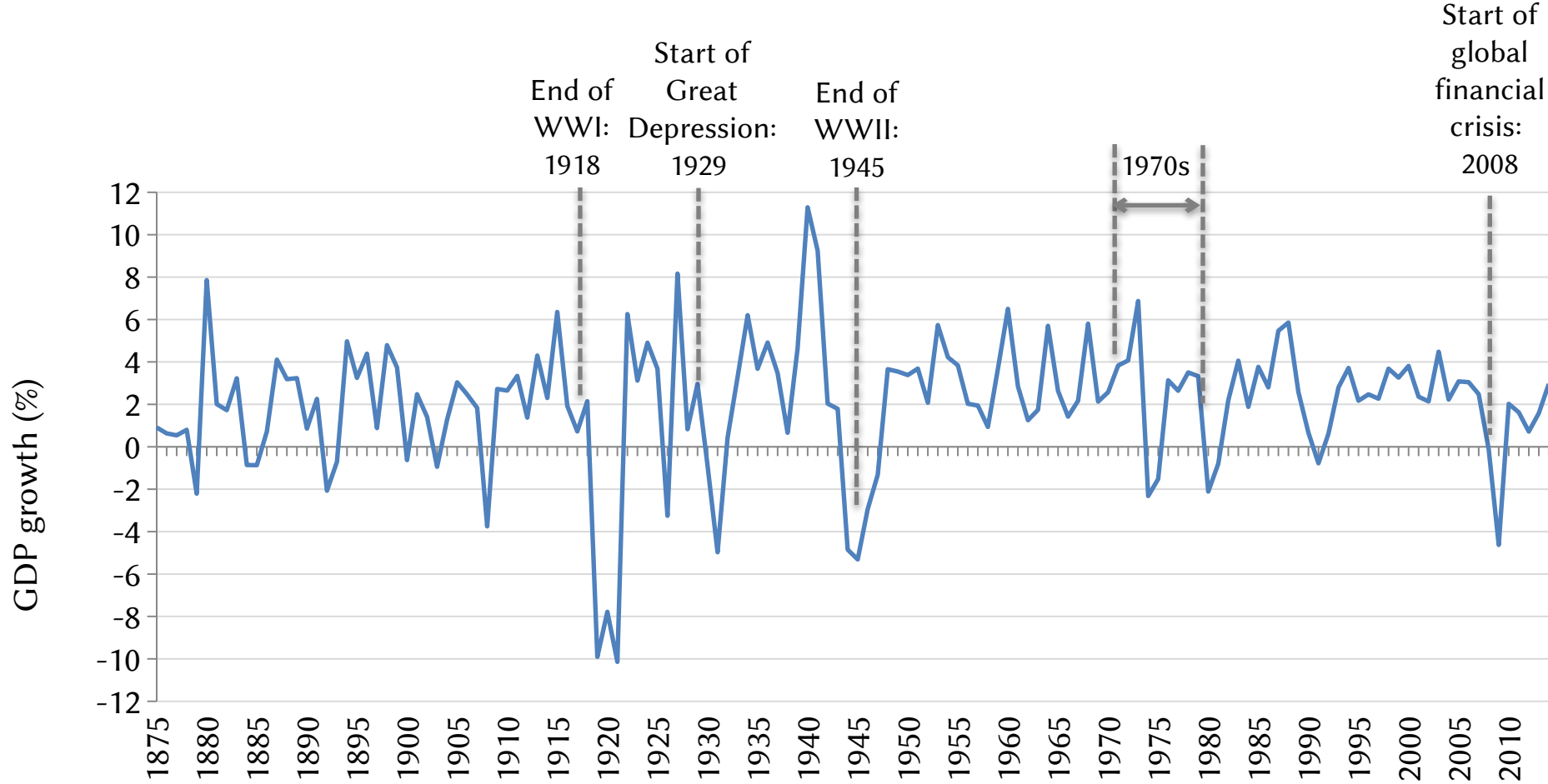


Figure 13.18b. UK unemployment rate (1875-2014).

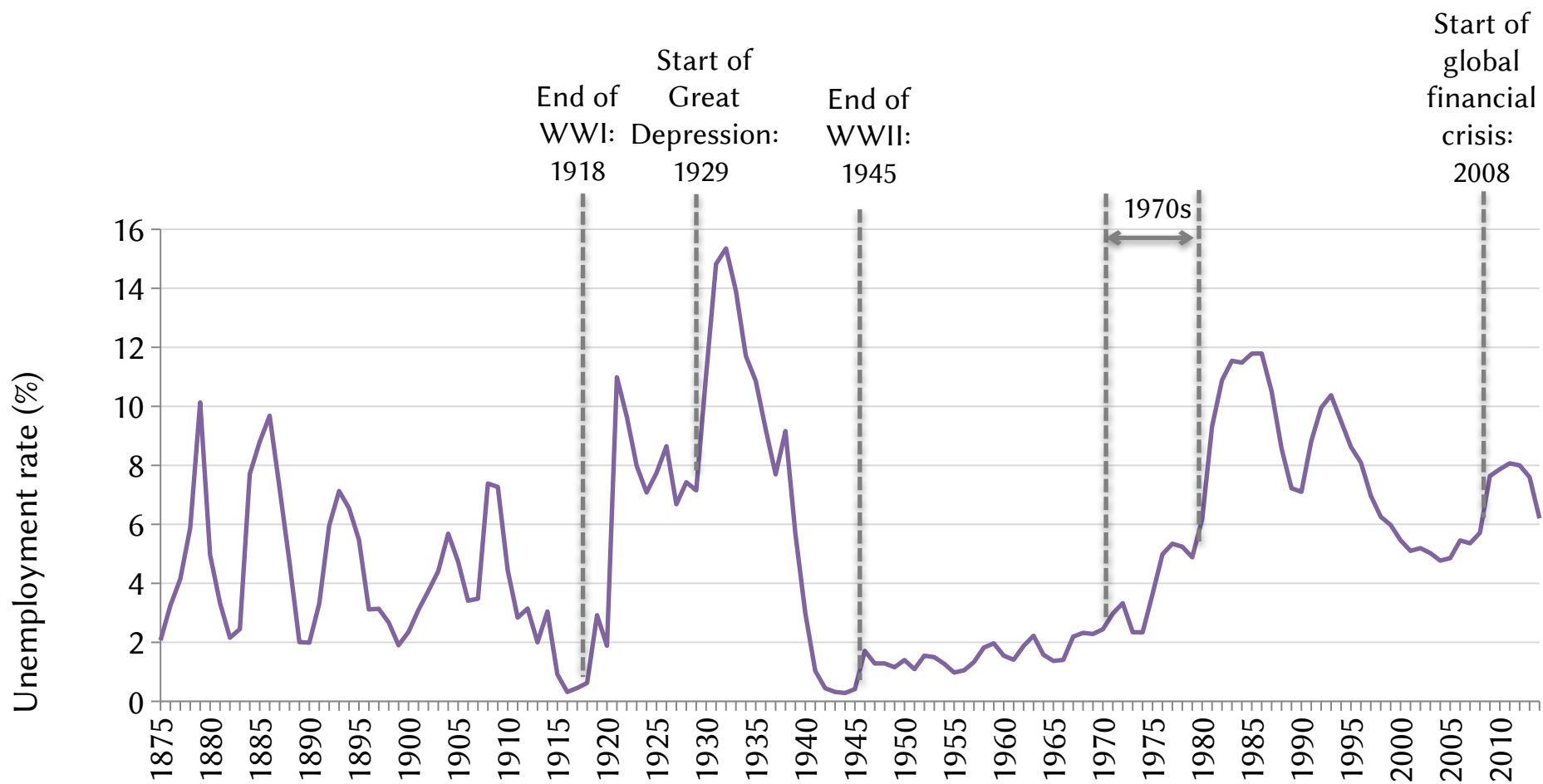


Figure 13.18c. UK inflation rate (1875-2014).

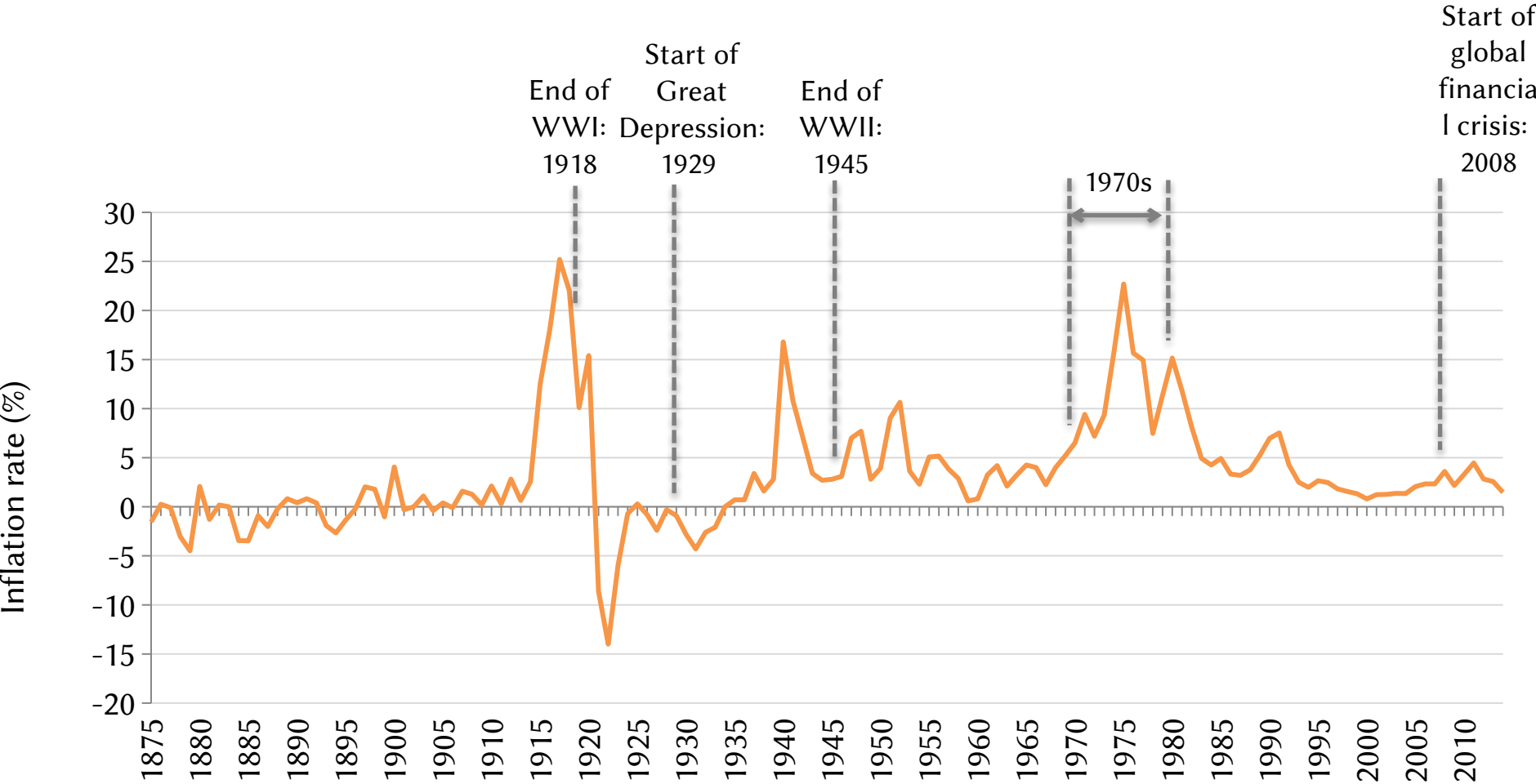


Figure 13.19. Inflation levels and volatility in high- and low-income economies.

