

# 18



## Introduction to Economic Growth Unemployment and Inflation



# To ponder upon...

WHICH OF THE FIGURES BELOW ARE INCLUDED IN THE OFFICIAL CORPORATE/GOVERNMENT UNEMPLOYMENT STATISTICS.

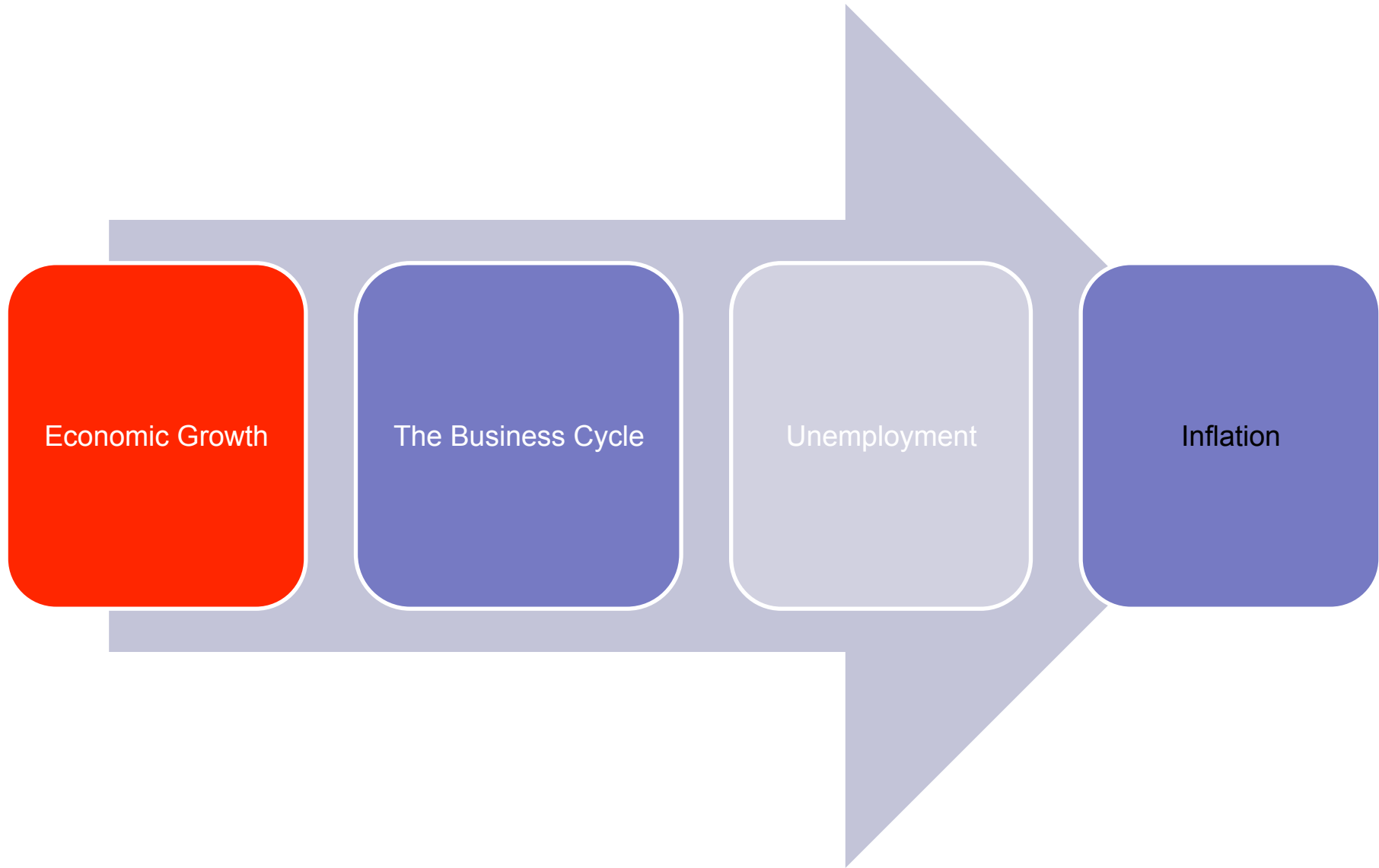
JUST THIS ONE



# In this chapter you will learn:

- The Business Cycle and its Primary Phases
- How Economic Growth is Measured and Why is it Important
- How Unemployment and Inflation are Measured
- The Types of Unemployment and Inflation and their Various Economic Impacts

# Where from now?



# Economic Growth

- Increase in Real GDP
- Increase in Real GDP Per Capita
- Growth as a Goal
- Arithmetic of Growth
  - Rule of 70



18.1

$$\begin{array}{l} \text{Approximate} \\ \text{number of years} \\ \text{required to double} \\ \text{real GDP} \end{array} = \frac{70}{\text{annual percentage rate of growth}}$$

# Economic Growth in SA

(1) Year	(2) Real GDP	(3) % Change in Real GDP (Year to Previous Year)	(4) Real GDP per capita	(5) % Change in Real GDP Per Capita (Year to Previous Year)
-------------	-----------------	---	-------------------------------	--

*...in millions of rands*

1970	671 652	5.2	29 881	2.5
1975	803 427	1.7	31 736	-0.06
1980	935 617	6.6	32 883	4.2
1985	1 000 737	-1.2	31 384	-3.4
1990	1 086 901	-0.3	30 648	-2.4
1995	1 134 582	3.1	28 815	1.0
2000	1 301 773	4.2	29 792	2.1
2005	1 571 082	5.3	33 176	3.9
2009	1 814 521	3.7	36 951	2.5

# Economic Growth

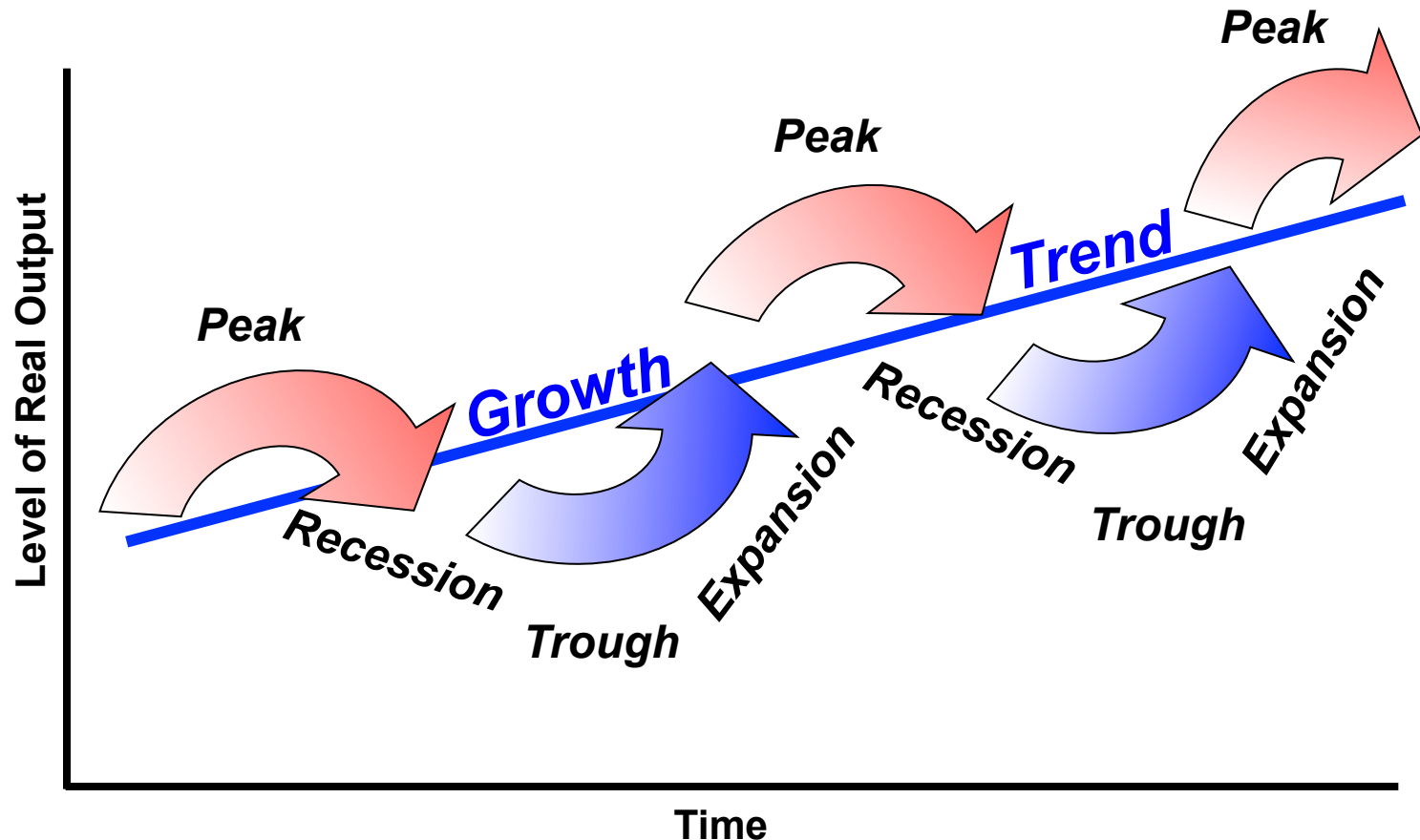
- **Main Sources of Growth**
- **Increases in Inputs**
- **Increases in Resource Productivity**
- **Growth in S.A.**
  - **Improved Products and Services**
  - **Added Leisure**
  - **Other Impacts**

# The Business Cycle

## *Phases of the Business Cycle*



18.1



***Cyclical Impact:***  
***Durables and Nondurables***



# Unemployment

- **Twin Problems of the Business Cycle**
  - Unemployment
  - Inflation
- **Measurement of Unemployment**
- **Labor Force**
- **Unemployment Rate**
  - Part-Time Employment
  - Discouraged Workers



18.2

$$\text{Unemployment Rate} = \frac{\text{Unemployed}}{\text{Labor Force}} \times 100$$

# Unemployment

- **Types of Unemployment**
  - Frictional Unemployment
  - Structural Unemployment
  - Cyclical Unemployment
- **Full Employment**
  - Natural Rate of Unemployment (NRU)

# Unemployment in SA

	Jul-Sept 2008	Apr-Jun 2009	Jul-Sept 2009	Year on Year Change
--	------------------	-----------------	------------------	---------------------------

*...in thousands*

Population 15-64	30 801	31 080	31 172	371
Labour Force	17 777	17 495	17 077	-700
Employed	13 655	13 369	12 885	-770
Unemployed	4122	4 125	4 192	70
Not Economically				
Active	13 024	13 585	14 095	1 071
Unemployment rate	23.2%	23.6%	24.5%	1.3%
Labour Force				
Participation rate	57.7%	56.3%	54.8%	-2.9%

# Unemployment

- **Economic Cost of Unemployment**
- **Potential Output**

$$\text{GDP Gap} = \text{Actual GDP} - \text{Potential GDP}$$

# Unemployment

- **Unequal Burdens**
  - **Occupation**
  - **Age**
  - **Race and Ethnicity**
  - **Gender**
  - **Education**
  - **Duration**
- **Noneconomic Costs**

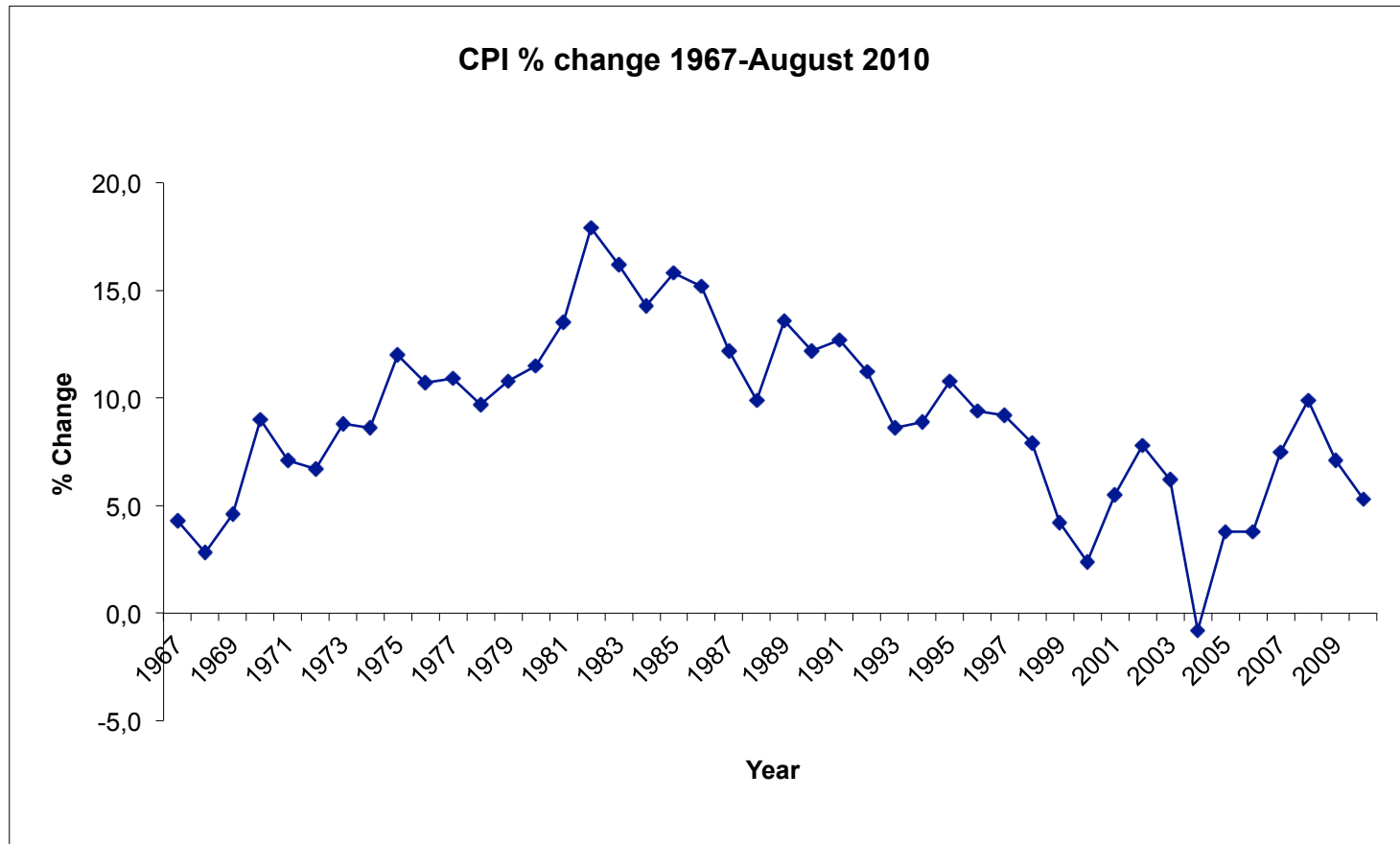
# Inflation

- **Inflation Defined**
- **Measurement of Inflation**
  - **Consumer Price Index**

$$\text{CPI} = \frac{\text{Price of the Most Recent Market Basket in the Particular Year}}{\text{Price of the Same Market Basket in 1982-1984}} \times 100$$

# Inflation

## *Annual Inflation Rate in South Africa, 1967-2010*



*Source: StatsSA*

# Inflation

- **Types of Inflation**
  - **Demand Pull Inflation**
  - **Cost-Push Inflation**
    - **Per Unit Production Costs**
- **Redistributive Effects**
  - **Nominal and Real Income**
  - **Anticipations**
    - **Anticipated Inflation**
    - **Unanticipated Inflation**



18.3



# **Inflation**

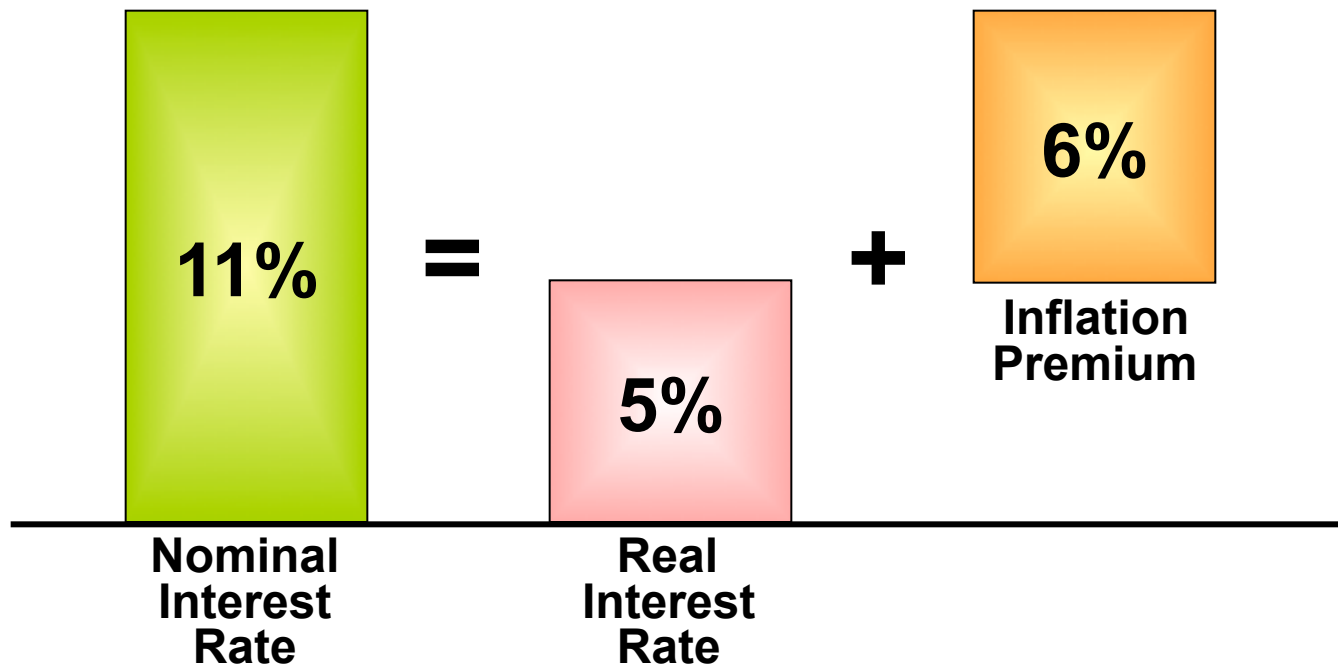
- **Who is Hurt by Inflation?**
  - **Fixed-Income Receivers**
  - **Savers**
  - **Creditors**
- **Who is Unaffected or Hurt by Inflation?**
  - **Flexible-Income Receivers**
    - **Cost-of-Living Adjustments (COLAs)**
  - **Debtors**

# Inflation

- **Anticipated Inflation**
  - Nominal Interest Rate
  - Real Interest Rate
  - Inflation Premium



18.2



# Inflation

- **Cost-Push Inflation and Real Output**
- **Demand-Pull Inflation and Real Output**
- **Inflation targeting in S.A.**
- **Hyperinflation**
  - **Case of Zimbabwe**

# The Stock Market and the Economy



## *Do Stock Prices Affect Macroeconomic Instability?*

- **Supply and Demand in the Stock Market**
- **Collective Expectations of Future Profits and Losses**
- **Volatility of the Stock Market**
- **Wealth Effect**
- **Investment Effect**
- **Studies Show Consumption and Investment Unaffected**
- **Little Impact on Macro economy**
- **Stock Market Bubbles Do Have an Impact**
- **Stock Price Cycle Predictions**
- **Index of Leading Indicators**
- **Stock Prices Not a Reliable Predictor Alone**

# Key Terms

- economic growth
- real GDP per capita
- rule of 70
- business cycle
- peak
- recession
- trough
- expansion
- labor force
- unemployment rate
- frictional unemployment
- structural unemployment
- cyclical unemployment
- natural rate of unemployment (NRU)
- potential output
- GDP gap
- inflation
- Consumer Price Index (CPI)
- demand-pull inflation
- cost-push inflation
- per-unit production costs
- nominal income
- real income
- anticipated inflation
- unanticipated inflation
- real interest rate
- nominal interest rate
- Inflation targeting
- hyperinflation

# *Next Chapter Preview...*

19!



## **Government and Market Failure**