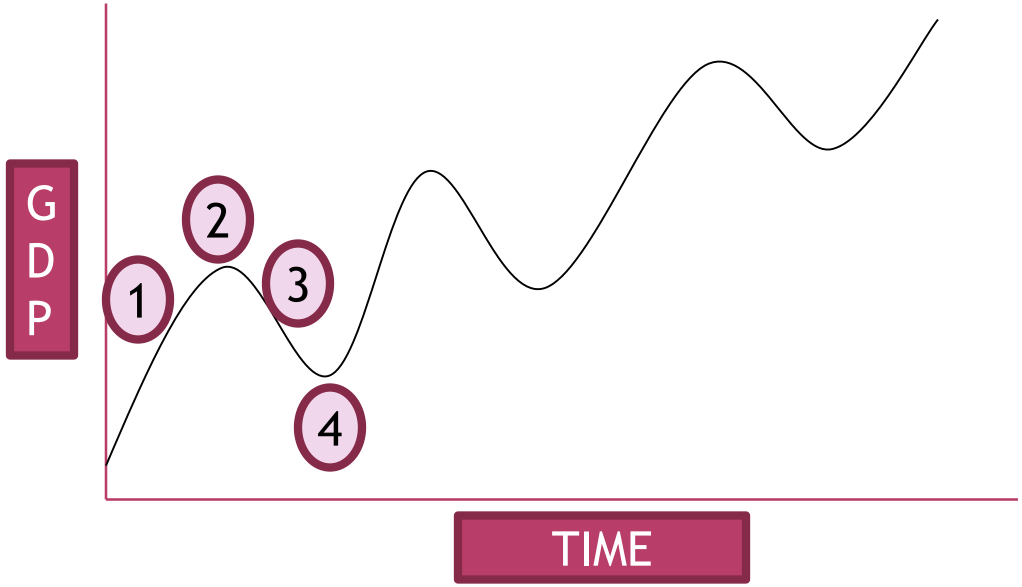
BUSINESS CYCLE

Essential Questions: Which indicators should members of the government look at when making economic policies? Why? How do we know how the economy is doing?

GROSS DOMESTIC PRODUCT

- Gross Domestic Product – the total amount of new/final goods and services produced by a nation in a given year (If GDP is increasing, it means the economy is good.)



1. *Expansion* - GDP is increasing;
   a. **Inflation -** increase in prices of goods and services over time. (People have more $ to spend, therefore demand for all goods and services increases, which causes prices to rise as well.)

2. *Peak* - end of a period of expansion; the highest point of economic output

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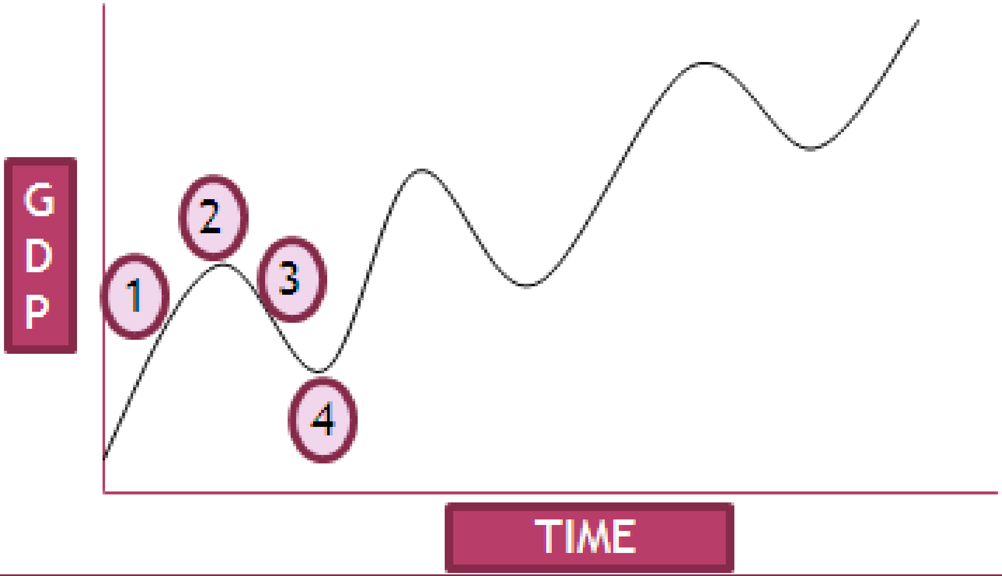

3. ***Contraction*** - After a peak, business activity begins to slow or contract
   a. If this becomes severe, it becomes a recession – businesses fail, people lose jobs, and profits fall
   b. ***Recession*** – no growth in GDP for at least 6 months
   c. ***Depression*** – an extended recession; very rare
   d. **Deflation** - decrease in prices of goods and services over time. (People have less $ to spend, therefore demand for all goods and services decreases, which causes prices to drop.)

4. ***Trough*** - Lowest point in a the economic cycle
   a. High unemployment; people can't buy goods and services
   b. Government intervention necessary
   c. When GDP begins to grow again, we call it a recovery

ECONOMIC INDICATORS

How do we know how our economy is doing?

Economic Indicator	Description
Gross Domestic Product (GDP)	If GDP is increasing, economy is doing well; If GDP is decreasing, economy is not doing well.
Consumer Price Index	A measure of the average change over time in prices paid by consumers for goods and services (measures inflation – if prices are going up – the economy is doing well.)
Producer Price Index	A measure in the average change over time in the prices that producers earn when selling their goods and services (if PPI is going up, producers are making more profits, the economy is doing well.)
Unemployment Rate	A measure of people that cannot find work – if the unemployment rate is increasing, the economy is bad

REVIEW QUESTIONS

For each of the following scenarios, indicate whether the situation is describing a time of economic expansion, contraction, depression, or recovery.

ECONOMIC SCENARIOS

1. Stock prices plummet and unemployment is wide spread.
2. Stores continue to place large orders to keep up with growing demand.
3. The number of banks loaning money to prospective homeowners reaches an all-time high.
4. Business surpluses accumulate because demand has decreased.
5. New high-tech businesses begin hiring many of the unemployed.
6. Lowered prices lead to an increase demand for certain goods and services.
7. Consumers begin to cut back on spending on luxuries such as entertainment.
8. There is a boom in vacation real estate investments.
9. A large number of major corporations go out of business.
10. Car dealers lower prices and offer rebates to attract customers.

ECONOMIC SCENARIOS ANSWERS

1. Stock prices drop suddenly and unemployment is wide spread. *Contraction*
2. Stores continue to place large orders to keep up with growing demand. *Expansion*
3. The number of banks loaning money to prospective homeowners reaches an all-time high. *Expansion*
4. Business surpluses accumulate because demand has decreased. *Contraction*
5. New high-tech businesses begin hiring many of the unemployed. *Recovery*
6. Lowered prices lead to an increase demand for certain goods and services. *Recovery*
7. Consumers begin to cut back on spending on luxuries such as entertainment. *Contraction*
8. There is a boom in vacation real estate investments. *Expansion*
9. A large number of major corporations go out of business. *Depression*
10. Car dealers lower prices and offer rebates to attract customers. *Contraction*