Business Cycle

In this lesson, students will be able to identify characteristics of the business cycle.

Students will be able to identify and/or define the following terms:

Business Cycle

Expansion

Peak

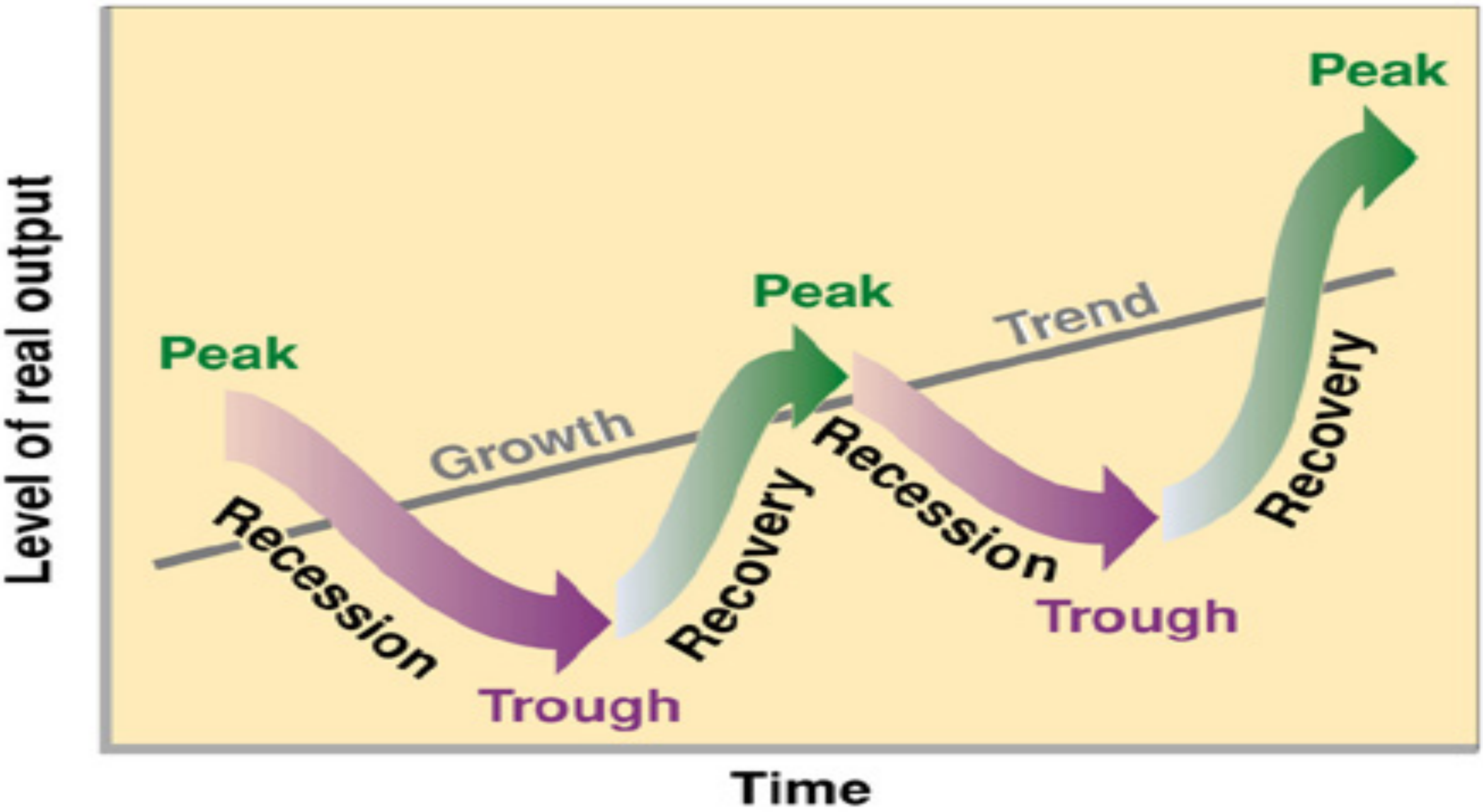
Contraction

Trough

Do Now

- What is the real GDP?
  - –The Gross Domestic Product is the dollar value of all final goods and services produced within a country's borders in a given year the real GDP includes inflation.

- A business cycle is a period of macroeconomic expansion followed by a period of contraction.



<u>The Four Phases of a Business Cycle</u>

- There are four phases in a business cycle:
  - –**<u>Expansion</u>**: a period of economic growth.
  - –**<u>Peak</u>**: the height of the expansion.
  - –**<u>Contraction</u>**: a period of economic decline.
  - –**<u>Trough</u>**: the lowest point of the contraction.

Business Cycle

- During a period of expansion, the economy experiences economic growth.
- It experiences a steady, long-term increase in real GDP.
- At the height of the expansion, the peak occurs.
- The peak is the height of the expansion.

Business Cycle

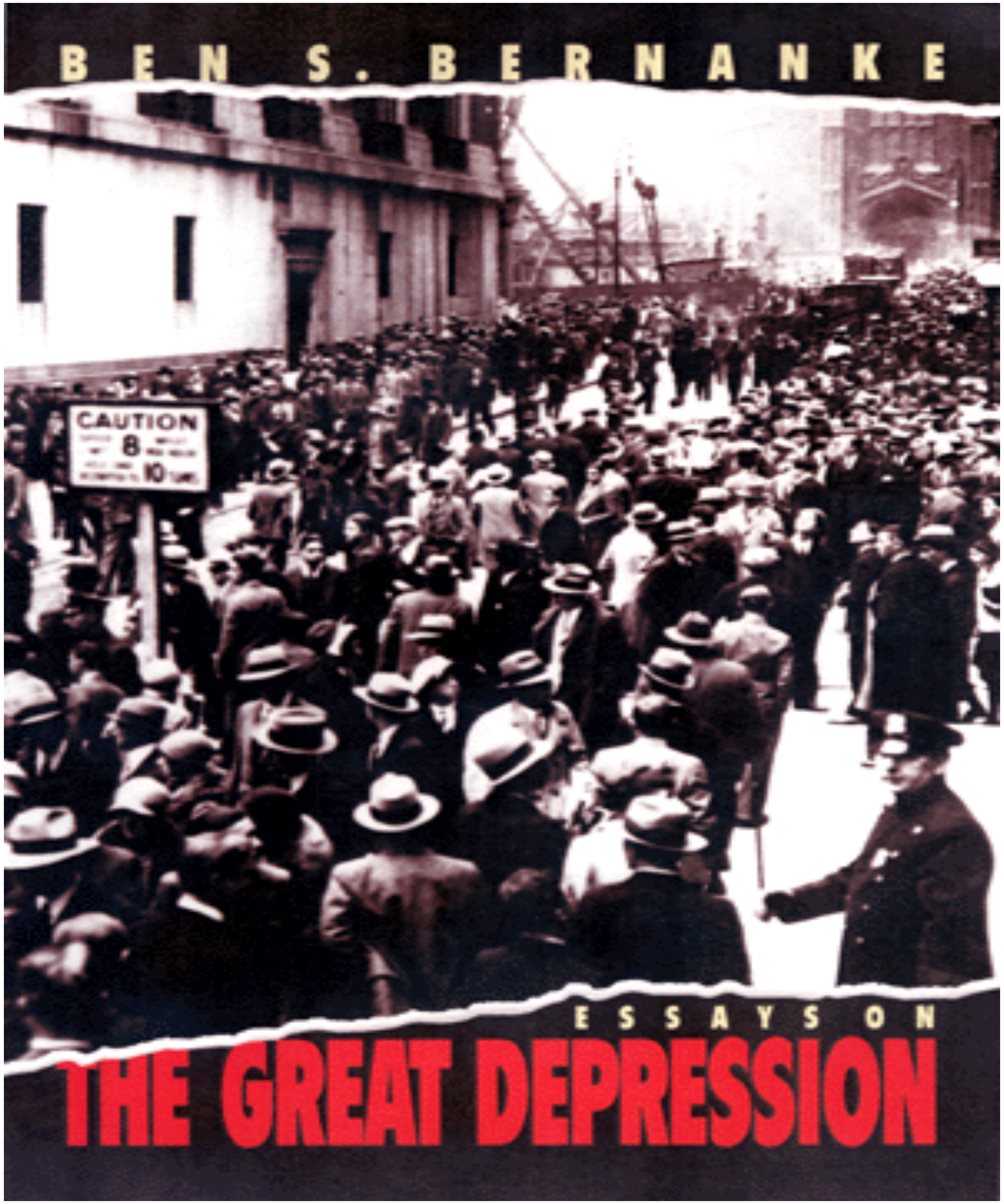
- It occurs when real GDP stops rising.
- The peak is followed by a period of contraction.
- Contraction occurs when there is an economic decline marked by a fall in real GDP.
- The trough is the lowest point in an economic contraction, when real GDP stops falling.

- When an economy is expanding or growing, many people have jobs and many goods and services are being produced and sold.
- At the peak of the expansion, Gross Domestic Product is as high as it will go for that particular business cycle.

- During a period of contraction, more people are unemployed and fewer goods and services are being produced and sold.
- Not all contractions are equally severe.

Recessions and Depressions

- Each phase of the business cycle is determined by monitoring Gross Domestic Product.
- A contraction that lasts for at least six months is called a recession.
- A particularly severe and long contraction is called a depression.



- The Great Depression was the most severe economic contraction in the history of the world.
- It permanently changed the way economists think.

Factors Which Affect the Business Cycle

- The following four factors can affect the business cycle:
  - Investment in Businesses
  - Interest Rates
  - Consumer Expectations
  - External Shocks

- The more money people invest in businesses, the more money businesses have to grow.
- Investment affects the business cycle.

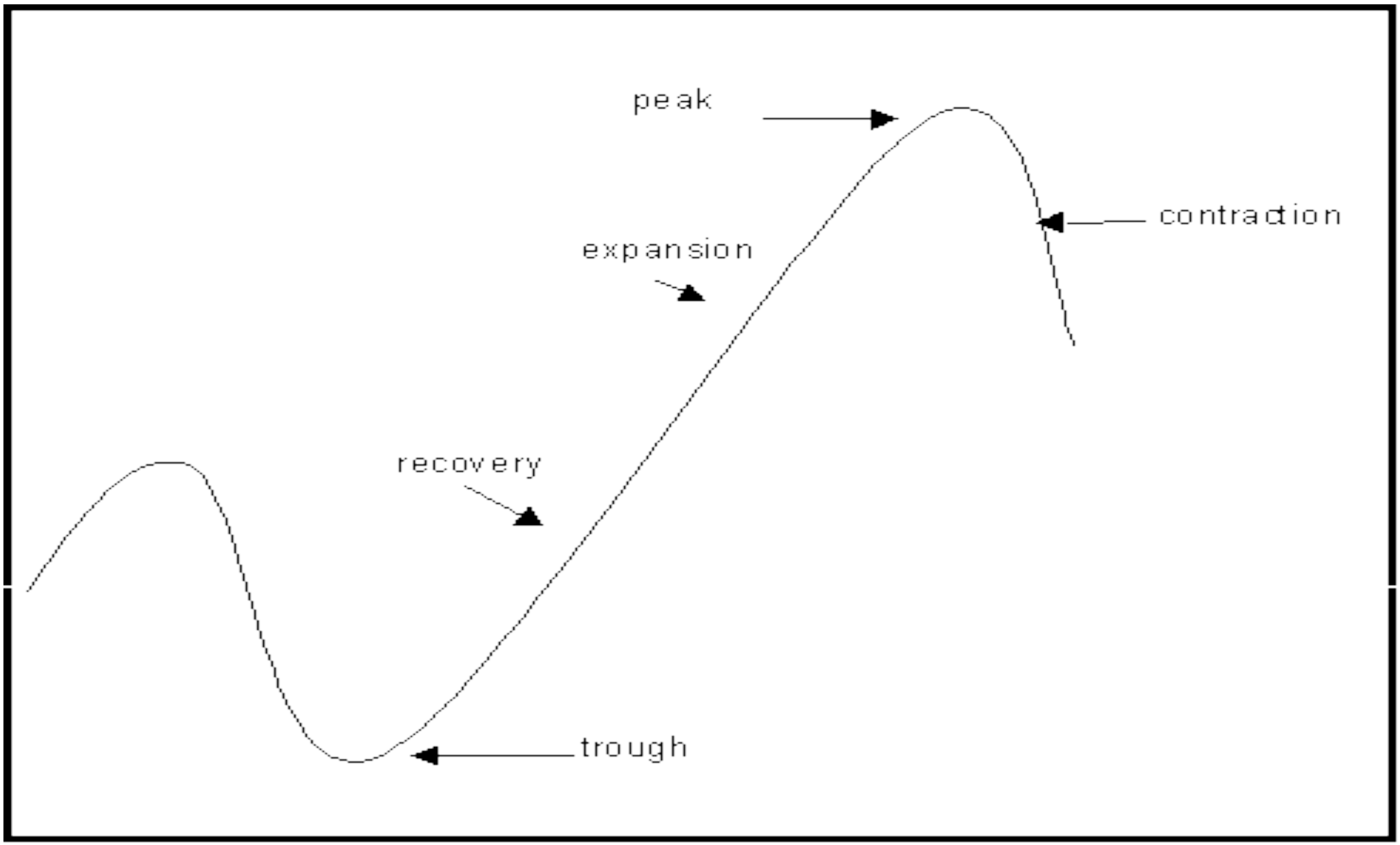
STOCKS & BONDS

- Interest is the price of borrowed money.
- When interest rates are high, people borrow less.
- Businesses borrow less too.
- Interest rates affect the business cycle.

- When people are optimistic about the future, they spend more money.
- Optimism affects the business cycle.

- External shocks can be positive or negative.
- An earthquake is a negative external shock.
- It affects the business cycle.

- Throughout American history, there have been many business cycles.



Questions for Reflection:

- Define the business cycle.
- What are the four phases of the business cycle and explain each phase?
- What are the four factors that affect the business cycle and how does each factor affect the business cycle?
- What is the relationship between Gross Domestic Product and the four phases of the business cycle?