# Lecture Notes

# Chapter 7: Economic Fluctuations and a Record of Growth

1. Long run economic growth

1.1 The growth of real GDP per capita around the world

* Use real GDP per capita to track the standard of living
* Which country is the “best performer”?
* Which country has been “the most improved”?

1.2 Calculating growth rates

Real GDP per capita growth rate

Question 1. The real GDP per capita for a country was $4000 in 2013 and $3800 in 2014. Find the growth rate.

Rule of 70

Years to double = 70/(Annual growth rate)

Question 2. Country A experiences a 2% yearly real GDP growth while Country B has a 3% yearly real GDP growth. Does it make a significant difference in 100 years?

1.3 The cause of long run economic growth

Q: What is the cause of long run economic growth?

A:

Q: What are the three major determinants of labor productivity?

a. Physical capital

- Manmade productive assets including \_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_

b. Human capital

- knowledge and skill workers acquired through \_\_\_\_\_\_\_\_\_\_, \_\_\_\_\_\_\_\_\_\_\_\_, and \_\_\_\_\_\_\_\_\_\_

c. technology

- the mean to produce \_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_

1.4 Potential GDP

Potential GDP – the level of \_\_\_\_\_\_\_\_\_\_\_\_\_ an economy produces when it fully employs its resources and uses them efficiently

GDP gap – the difference between actual GDP and potential GDP

Q: An economy has the ability to produce $10 billion real GDP but produces $9 billion instead. What is the GDP gap?

2. The business cycle

Growth trend The expansion or contraction of an economy over very \_\_\_\_\_\_\_ periods of time

2.1 Business cycle

– a short run fluctuation in economic activities (real GDP)

2.2 Phases of a business cycle

Recession

Trough

Recovery/expansion

Peak/boom

Business cycle is \_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_.

2.3 Causes of business cycle

* innovations
* political events
* total spending
* constancy of government policy/inappropriate political actions
* Other, such as supply shock and financial crisis

Question 4. Should unemployment and inflation be considered as causes of business cycle?

1. **The record of growth in the U.S.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Event | Real GDP | Unemployment | Inflation | Reason |
| (1) The roaring 20’s (1921-1929) |  |  |  |  |
| (2) The Great Depression (1929 – 1933) |  |  |  |  |
| (3) World War II and postwar Boom (1940s) |  |  |  |  |
| (4) Vietnam War Boom (1960’s) |  |  |  |  |
| (5) The 1st Supply Shock /Oil Shock (1974-1976) |  |  |  |  |
| (6) The 2nd Supply Shock/ Oil Shock(1980 – 1982) |  |  |  |  |
| (7) Short recession (1991) and the Jobless recovery |  |  |  |  |
| (8) New Economy (1992 – 2000) Longest growth in the U.S. history. |  |  |  |  |
| (9) Short recession (2001) |  |  |  |  |
| (10) U.S. economy 2002 – 2007 |  |  |  |  |
| (11) Recession (Dec. 2007 – June 2009) |  |  |  |  |

4. **Four states of an economy**

(1) Depression /recession

Real GDP:

Unemployment:

Inflation:

Example:

(2) Full employment and stable growth

Real GDP:

Unemployment:

Inflation:

Example:

(3) Overheating

Real GDP:

Unemployment:

Inflation:

Example:

(4) Stagflation

Real GDP:

Unemployment:

Inflation:

Example:

Over all, the American economy is \_\_\_\_\_\_\_\_\_\_\_ oriented.

The most important factors for the growth in the U.S. are \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ which increase labor productivity.

Principles of Macroeconomics

Classroom activity

Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

The following table reveals how a hypothetical economy performs from Year 1 to Year 5. In what year does this economy experience recession, overheat, stagflation, or full employment? Fill in the blanks.

|  |  |  |  |
| --- | --- | --- | --- |
| Year | GDP growth rate | Unemployment rate | Inflation rate |
| 1 | - 2.5% | 9.8% | 1.5% |
| 2 | 3.7% | 5.3% | 3.1% |
| 3 | 15.1% | 2.9% | 14.6% |
| 4 | - 2.1% | 10.4% | 11.3% |
| 5 | - 1.5 % | 7.3% | 0.0% |

Year 1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Year 2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Year 3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Year 4. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Year 5. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_