9 Introduction to Macroeconomics

10 The Circular-Flow Diagram and the National Accounts

11 Gross Domestic Product (GDP)

12 Interpreting Real Gross Domestic Product
The Business Cycle

- The **business cycle** is the short-run back and forth between economic downturns and upturns.

- A **depression** is a very deep and prolonged downturn.

- **Recessions** are periods of economic downturns when output and employment are falling.

- **Expansions** are periods of economic upturns when output and employment are rising.
A Stylized Picture of the Business Cycle

- **Employment or production**

- **Business-cycle peaks**

- **Business-cycle troughs**

- **Year**

- **Recession**
- **Expansion**
- **Recession**
Unemployment and the Business Cycle

- **Unemployment** is the total number of people who are actively looking for work but aren’t currently employed.

- Recessions hurt the standard of living of many families because unemployment tends to increase during recessions.
The Unemployment Rate and the Business Cycle
Comparing Recent Recessions

Industrial production as percentage of pre-recession peak

2001 recession

2007–2009 recession

Source: Federal Reserve Bank of St. Louis.
Long-Run Economic Growth

- Long-run economic growth is the sustained upward trend in the economy’s output over time.

- Economic growth raises people’s standard of living.

- Economic growth is caused in part by a growing population, but overall production has grown faster than the workforce.
Growth, the Long-Run View

Real GDP per capita (2005 dollars)

Year


$50,000

$40,000

$30,000

$20,000

$10,000
Inflation and Deflation

• A rising aggregate price level is inflation.

• A falling aggregate price level is deflation.

• The economy has price stability when the aggregate price level is changing only slowly.

• Price stability is a goal of fiscal and monetary policymakers.
Rising Prices between 1980 and 2011

- Hourly earnings: 195%
- Eggs: 127%
- Roast coffee: 54%
- White bread: 178%
- Gasoline: 200%
International Trade

- An **open economy** trades goods and services with other countries.

- A country runs a **trade deficit (surplus)** when the value of goods and services bought from foreigners is more (less) than the value of goods and services it sells to them.

- Trade happens because of **comparative advantage**.

- Size of the trade deficit or surplus is due to national saving and investment decisions.
Unbalanced Trade

- **Exports**
- **Imports**

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