

Warm Up

- A Chinese citizen has a factory in the United States that makes a profit.
- Who's GDP would they count towards? GNP?
- What is REAL GDP?
- What is the output expenditure model? What does it calculate?
- What are some examples of goods or services not counted in GDP?
- Why is the census important to economics?
- What are the three factors that affect population growth?
- CEQ: Of the 35 developed nations in the world, where does the United States rank in childhood poverty rate?



Chapter 14

Chapter 14

- **Business Cycles** – Largely systematic ups and downs of real GDP
- **Business Fluctuations** – The rise and fall of real GDP over time in a nonsystematic manner
- **Recession** – A period of time which real GDP declines for two quarters in a row (6 months)
 - **Peak** – Where real GDP stops going up
 - **Trough** – Point where real GDP stops going down

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- Expansion – A period of recovery from a recession
- Trend Line – A steady growth path
- Depression – A state of the economy with large numbers of people out of work, acute shortages, and excess capacity in manufacturing plants



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- The Great Depression
- “Black Tuesday” – Oct. 29th 1929
- GDP falls from \$103 billion to \$55 billion
- Unemployment grows by 800%
- Banks failed across the nation
- Banks were shut down by the government



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- **Causes of the Great Depression**
 - The gap between rich and poor was gigantic
 - Many were deeply in debt to credit
 - United States was heavily in debt due to loans to other nations
 - High tariffs on imports kept foreign nations from selling goods in the U.S.
 - No Bank regulation
 - A “Run” on the banks

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- Business cycles of WWII officially got us out of the depression

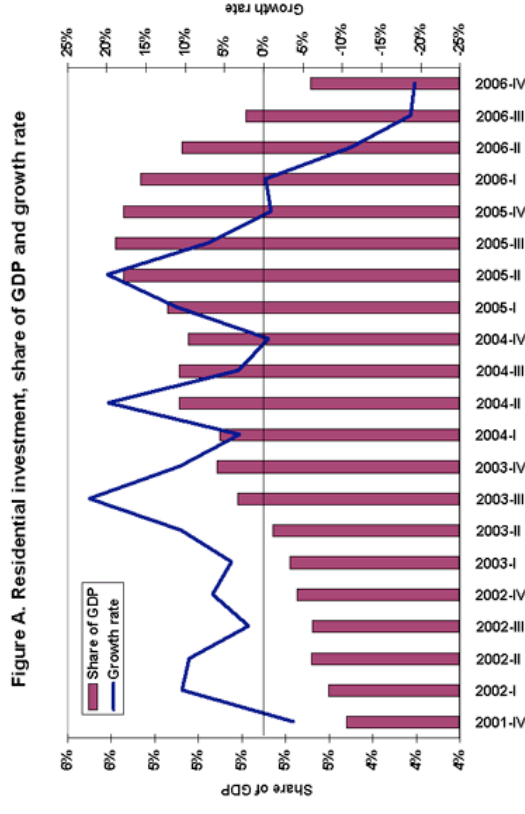


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- Causes of the Business Cycle
 - Capital Expenditures – Companies expanding and contracting
 - Inventory Adjustments – Expanding or contracting inventories
 - Innovation and Imitation – Innovation gives companies an edge – copying those companies is expensive
 - Monetary Factors – Federal Reserve controls the money supply
 - External Shocks – Increase in oil prices or international conflict

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- Predicting Business Cycles
 - Econometric Model – $GDP = C + I + G + (X - M)$
 - Index of Leading Indicators – A monthly statistical series that usually turns down before real GDP turns down



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- Unemployed – People available for work who made a specific effort to find a job up to one year
- Unemployment Rate – The number of unemployed individuals divided by the total number of persons in the work force

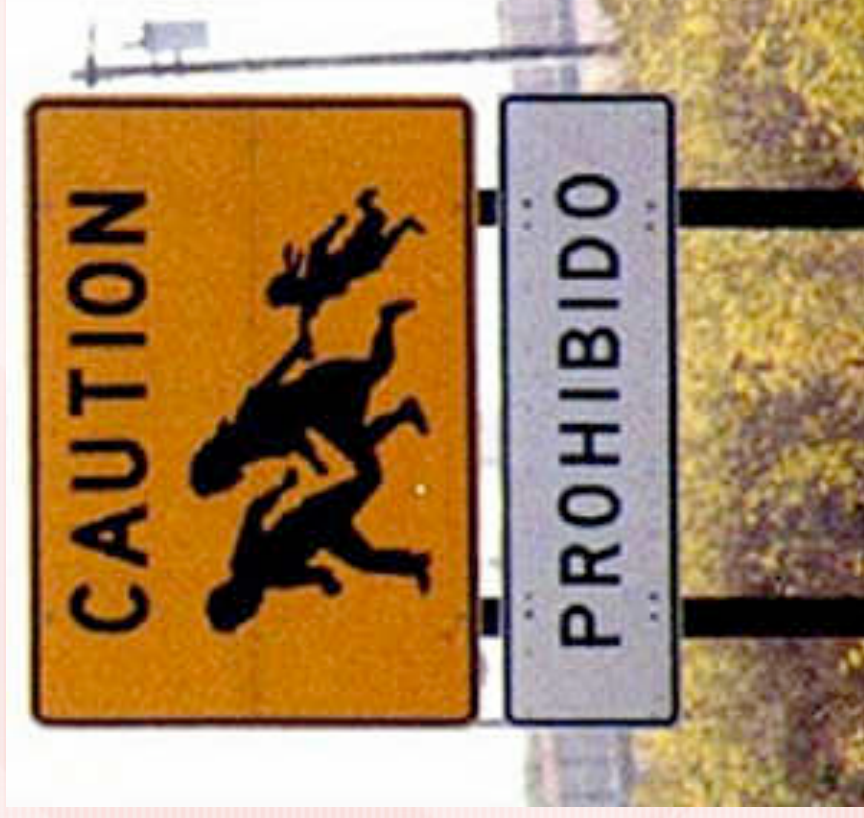


UNEMPLOYMENT

sucks when your job gets blow'd up

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- Limitations on the unemployment rate
 - Does not count...
 - People who have stopped searching for work
 - People unemployed for more than one year
 - Undocumented workers
 - People are considered employed if they have a part time job
 - People over 65 still looking for work



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- Kinds of Unemployment
 - Frictional Unemployment – Unemployment caused by workers who are between jobs
 - Structural Unemployment – a fundamental change in the operations of the economy which reduces the demand for workers
 - Cyclical Unemployment – Unemployment directly tied to the shift in the business cycle



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- Seasonal Unemployment – Unemployment caused by weather or changes in seasons
- Technological Unemployment – Unemployment caused when workers with less skills, talent, or education are replaced by machines or other forms of technology



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- The background of the slide features a stylized American flag with a red vertical bar on the left side. The flag's stripes and stars are rendered in a light, semi-transparent manner, creating a subtle watermark effect. The red bar is a solid, dark red color.
- **All Content Created by DJ Cook**