Economic Growth Business Cycle

Economic Power
& Standard

- Important goal of macroeconomic policy
- GDP growth in time

Economic Growth

- Total amount of final products and services in terms of money, produced within specific time
- GPD

Economic Power

- Efficiency of utilization of resources in the country
- Standard of living
- GDP per capita

Economic Standard

GDP per Capita

- The real GDP per capita of an economy is often used as an indicator of the average standard of living of individuals in that country, and economic growth is therefore often seen as indicating an increase in the average standard of living.
- However, there are some problems in using growth in *GDP per capita* to measure general well being.
  - GDP per capita does not provide any information relevant to the distribution of income in a country.
  - GDP per capita does not take into account negative externalities from pollution consequent to economic growth. Thus, the amount of growth may be overstated once we take pollution into account.
  - GDP per capita does not take into account positive externalities that may result from services such as education and health.
  - GDP per capita excludes the value of all the activities that take place outside of the market place (such as leisure).

Economic Growth

- The changes in economic power and standard in time are important. It is conventionally measured as the percent rate of increase in real GDP or as the annual percent change of National Income.
- We can express economic growth (when Y is real output and t is time) as follows:

Difference: $$\Delta Y = Y_t - Y_{t-1}$$

Growth coefficient: $$r = \frac{Y_t}{Y_{t-1}} * 100\%$$

Rate of growth: $$G = \frac{Y_t - Y_{t-1}}{Y_{t-1}} * 100\%$$

Business Cycle Theory

- The business cycle or economic cycle refers to the ups and downs seen somewhat simultaneously in most parts of an economy.
  - The cycle involves shifts over time between periods of:
    - relatively rapid growth of output (recovery and prosperity) alternating with periods of
    - relative stagnation or decline (contraction or recession).
  - These fluctuations are often measured using the real Gross Domestic Product.

Business Cycle Phases

- Contraction
  - is a reduction in goods and services for sale in the market place. Typically it relates to a downturn in production caused by external factors such as weather, or by such internal factors as taxes, regulatory constraints or other impacts on producer incentives. If lasting for two consequent quarters we refer to recession.
- Trough
  - is the lowest level of real output in business cycle regarded.
- Expansion (or recovery)
  - refers to upturn of economic activity, the real output is growing during this phase
- Peak
  - is an opposite to trough, it is the point of maximum real output over a cycle.

Abstract Business Cycle

Recession & Stagflation

- Recession
  - is usually defined in macroeconomics as a fall of a country's real Gross Domestic Product (GDP) in two or more successive quarters of a year
  - recession may involve simultaneous declines in coincident measures of overall economic activity such as output, income, employment and sales.

- Stagflation
  - a portmanteau of the words stagnation and inflation, is a term in microeconomics used to describe a period characteristic of high price inflation combined with economic stagnation, unemployment or economic recession
  - "Stag" refers to a sluggish economy with job shortages and little income growth, while “Flation” signifies rapidly rising prices.

Types of Business Cycle

- Kitchin cycle
  - short-term cycle, period of one cycle: 30 – 60 months. (cycle is influenced by degree of completion in production and oscillating stock position)

- Juglar cycle
  - medium-term cycle, period of one cycle: 10-11 years (cycle is influenced by problems with fixed capital investments and depreciation)

- Kontradev (or Kuznets) cycle
  - long-term cycle, period of one cycle: 50-60 years (cycle is influenced by major changes in technology, political events etc.)

Events Causing Business Cycle

- Theory of external causes:
  - the source of fluctuating aggregate supply and demand is placed outside the national economy. The possible causes should be: uneven pace of emerging new inventions, political events, specific features of particular economic policy, etc.
- Theory of internal causes:
  - the source of fluctuating aggregate supply and demand is placed inside the national economy. The possible causes should be: unsteady investment expenses, some companies try to maximize profit by cutting down the wage costs (reduction of demand).
- Theory of mixed causes:
  - there are concepts considering external factors (investments in technology) to be primary causes of cycles origin. When the economy has received the very first impulse, the internal factors start to encourage the cycles.

- Thank you for attention