

# 9 Introduction to Macroeconomics

10 The Circular-Flow Diagram and the National Accounts

11 Gross Domestic Product (GDP)

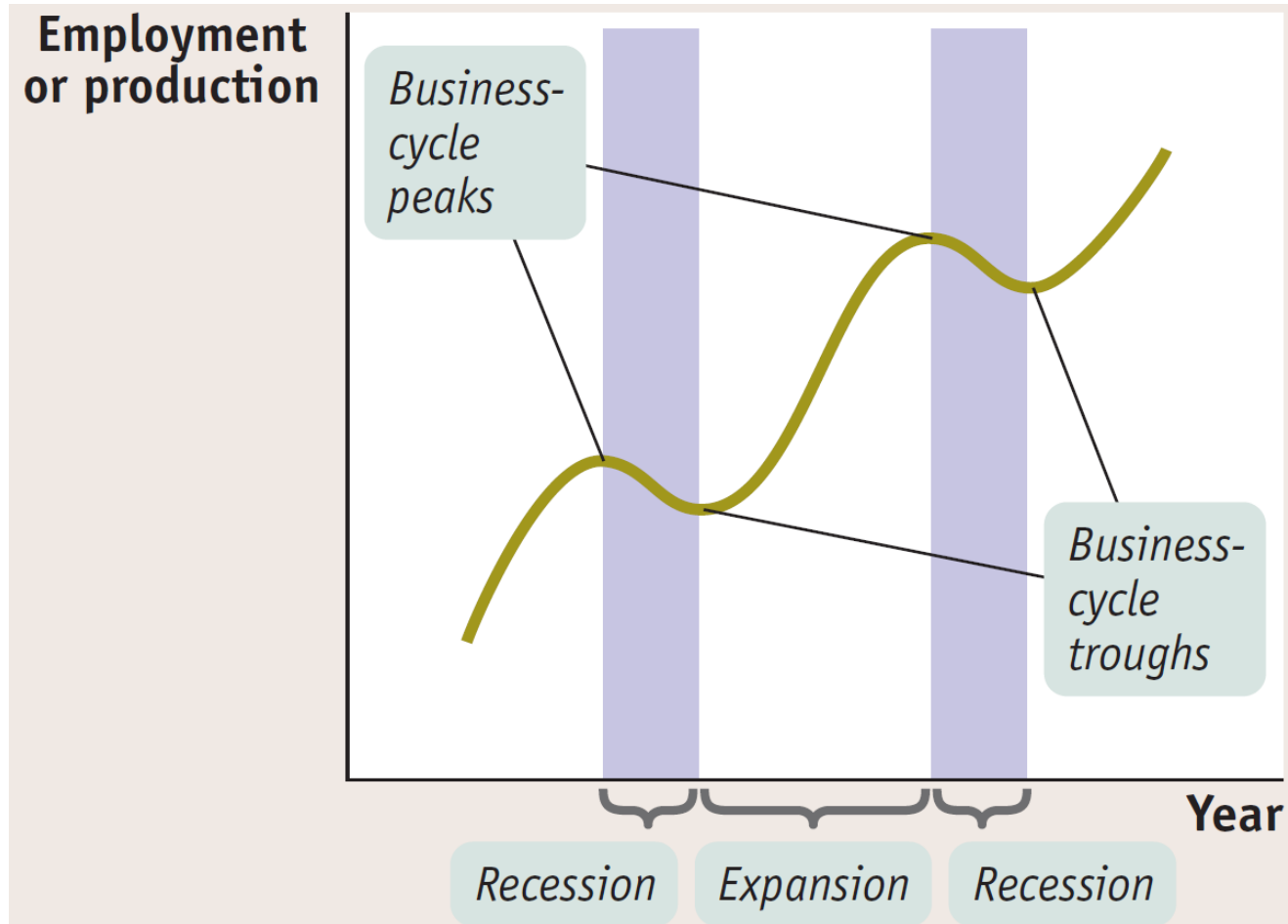
12 Interpreting Real Gross Domestic Product



# 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.

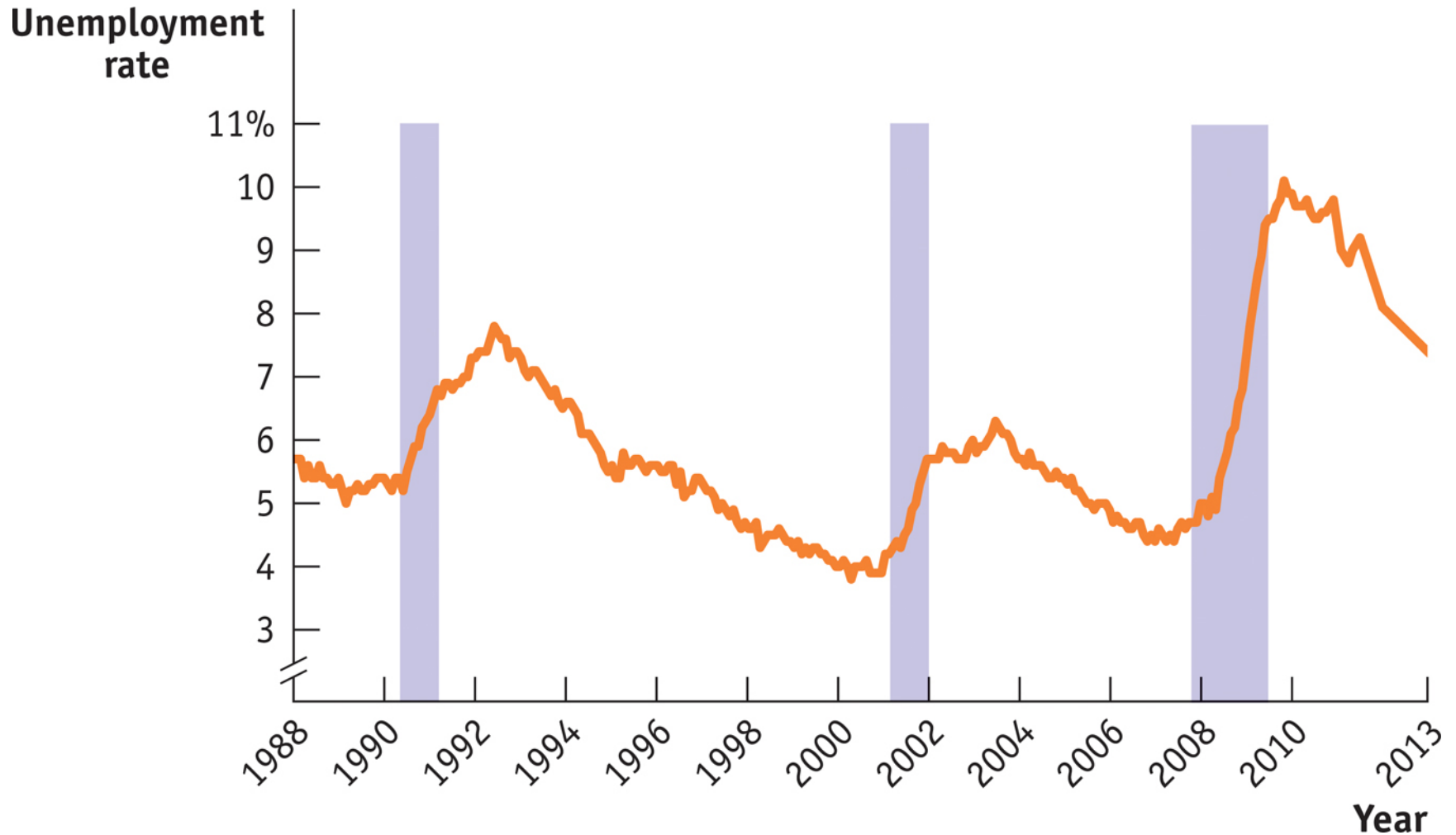
# A Stylized Picture of the Business Cycle



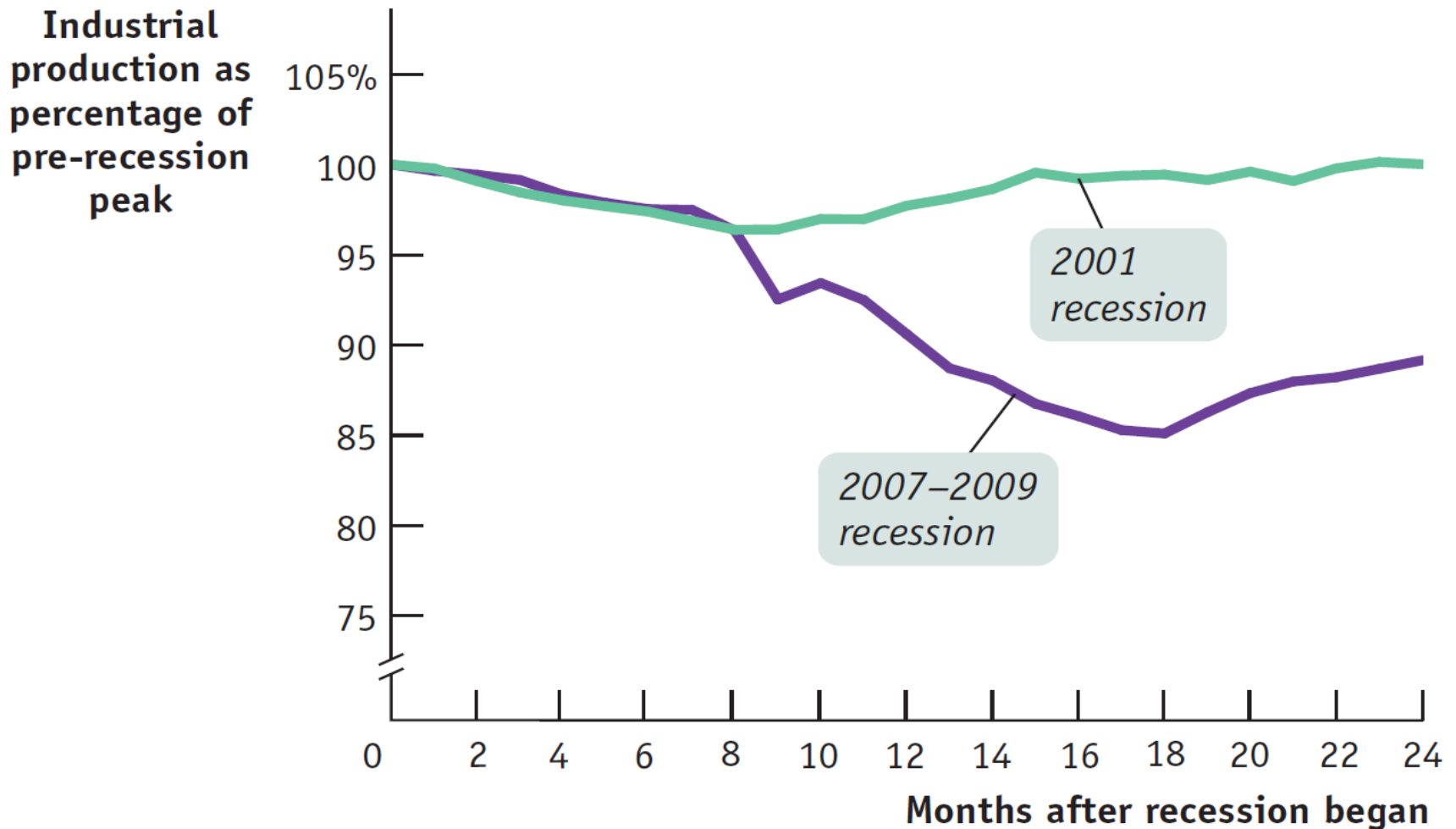
# Unemployment and the Business Cycle

- **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

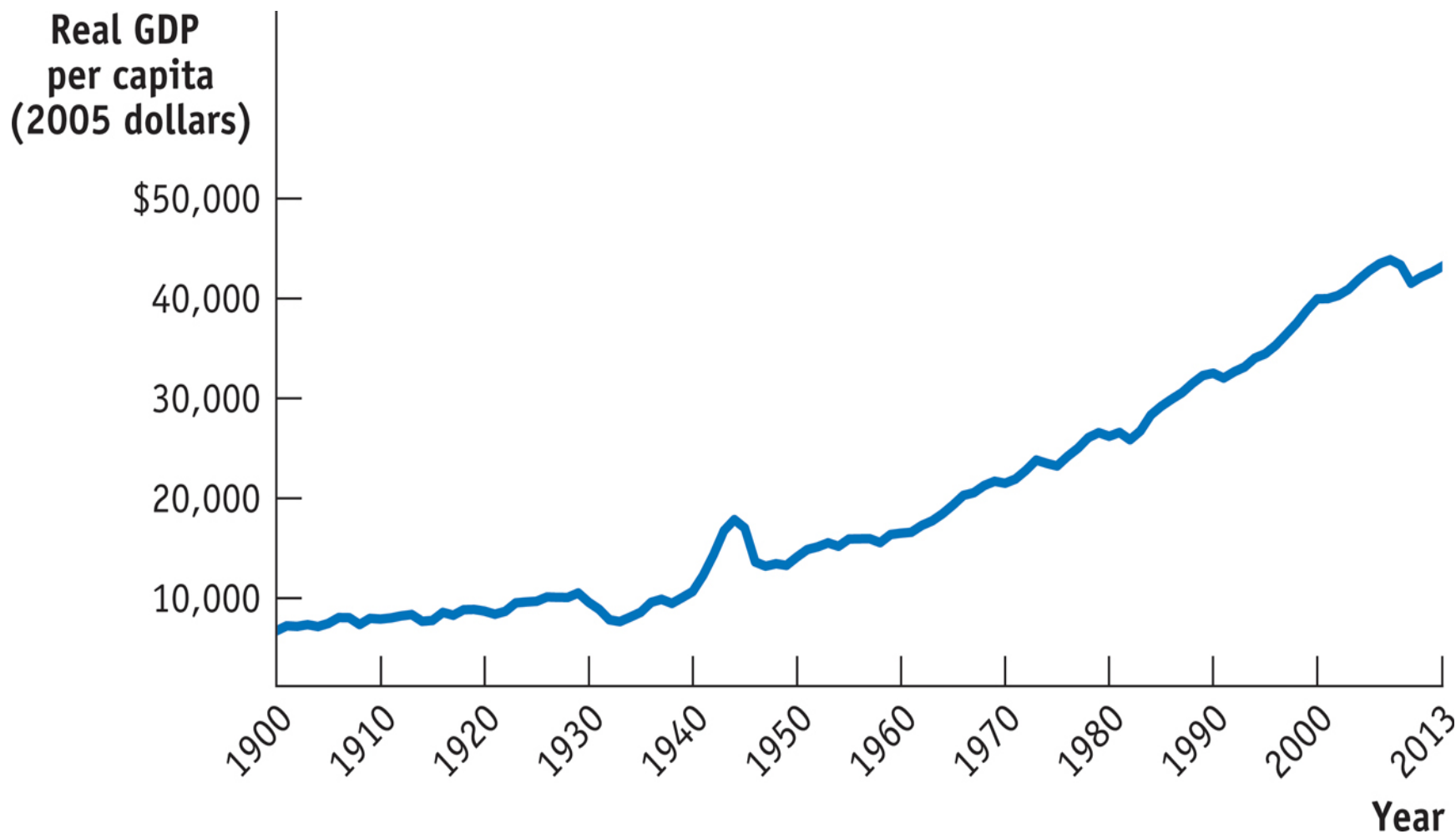


Source: Federal Reserve Bank of St. Louis.

# 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

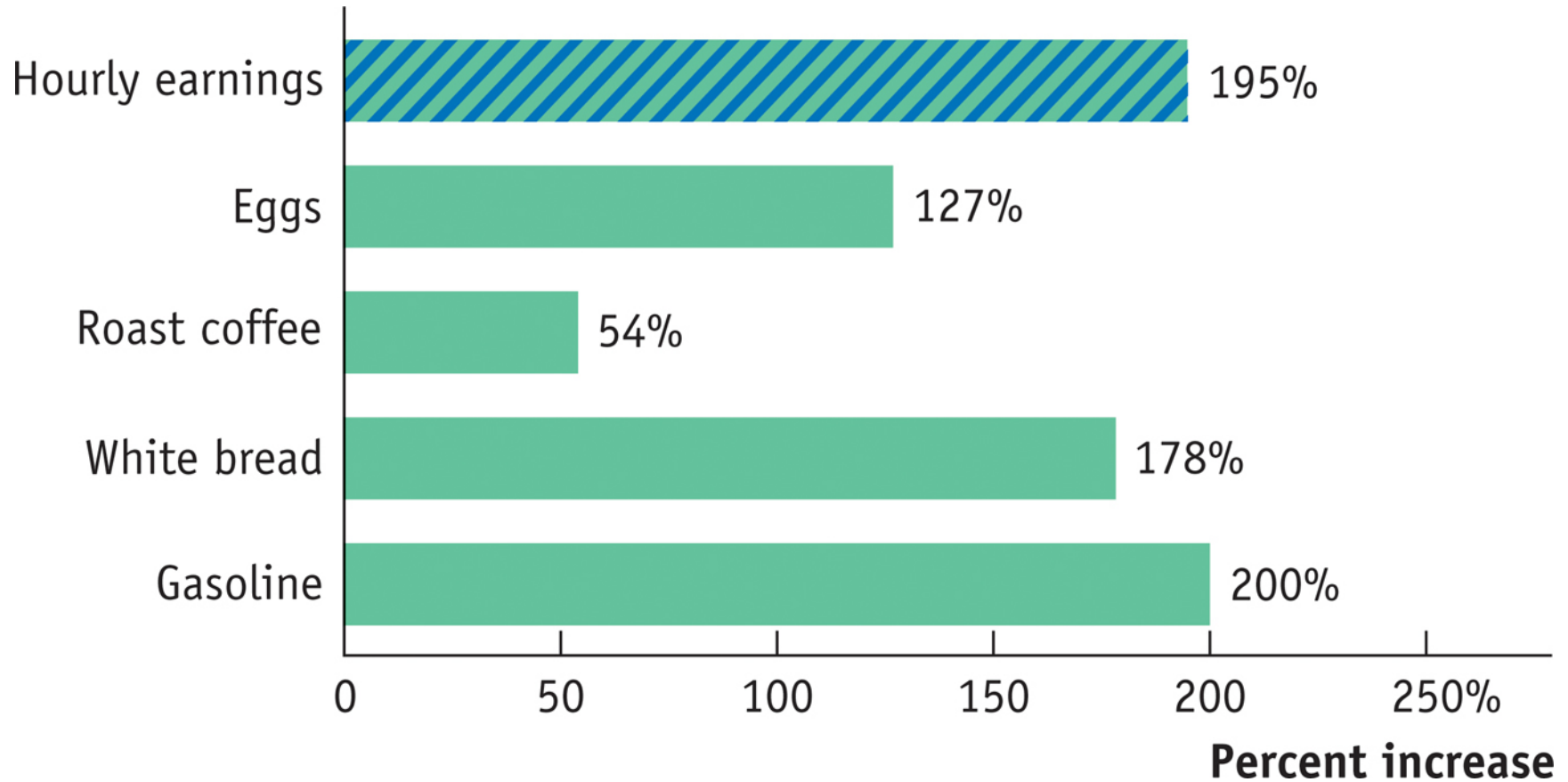




# Inflation and Deflation

- 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



# 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

