

THE BUSINESS CYCLE

The Macro Economy Today, 11th Edition
By Bradley R. Schiller

Chapter 8

I. Business Cycles in America

A. What is meant by the term “business cycle”?

B. Stereotypical Business Cycle

1. Diagram with phases

2. Recession:

3. Growth Recession:

C. Business Cycles in the Real World

1. Each business cycle experienced by the US economy will be _____ ,
in terms of:

National Bureau of Economic Research data available online at:
<http://www.nber.org/cycles/cyclesmain.html>

Dates of Recession	Duration	Decline in Real GDP	Peak UNE
Aug 1929-Mar 1933	43 mo	53.4%	24.9%
May 1937-Jun 1938	13 mo	32.4%	20.0%
Feb 1945-Oct 1945	8 mo	38.3%	4.3%
Nov 1948-Oct 1949	11 mo	9.9%	7.9%
Jul 1953-May 1954	10 mo	10.0%	5.9%
Aug 1957-Apr 1958	8 mo	14.3%	7.4%
Apr 1960-Feb 1961	10 mo	7.2%	6.9%
Dec 1969-Nov 1970	11 mo	8.1%	5.9%
Nov 1973-Mar 1975	16 mo	14.7%	8.6%
Jan 1980-Jul 1980	6 mo	8.7%	7.8%
Jul 1981-Nov 1982	16 mo	12.3%	10.8%
Jul 1990-Mar 1991	8 mo	2.2%	6.8%
Mar 2001-Nov 2001	8 mo	0.6%	5.7%
Dec 2007 - ???	27 mo+		

2. But, some things about business cycles are similar!

a. In the aggregate, consumer spending for non-durable goods and services fluctuates:

b. In the aggregate, consumer spending for durable goods fluctuates:

c. In the aggregate, business spending on capital and investment goods fluctuates:

D. Dating Business Cycles is the job of the **National Bureau of Economic Research**.

The NBER is a private research group responsible for assigning calendar dates to business cycle peaks and troughs. You can discover more information on business cycles by visiting the website of the NBER at: <http://www.nber.org/cycles.html/>.

1. How does the NBER define a recession?

“A recession is a significant decline in activity spread across the economy, lasting more than a few months.”

2. What information does the NBER use to determine if economic activity is declining?

a. Real personal income, less transfer payments

b. Employment

- c. Industrial production
- d. Volume of sales in manufacturing and wholesale-retail sectors
- e. Quarterly estimates of GDP

3. How quickly can the NBER determine a recession has started or is over?

“The committee’s approach to determining the dates of turning points is retrospective. We wait until sufficient data are available to avoid the need for major revisions. In particular, in determining the date of a peak in activity, and thus the onset of recession, we wait until we are confident that, even in the event that activity begins to rise again immediately, it has declined enough to meet the criterion of depth. As a result, we tend to wait to identify a peak until many months after it actually occurs.”

So, just to satisfy your curiosity, check this out:

Example #1: The “Gulf War Recession” actually ended in March of 1991. However, it took until December of 1992 for the NBER to gather enough data to be sure that the recession was actually over. So, they held a press conference in December of 1992, told everybody that the recession was over, and back-dated the end of the recession to March of 1991.

Example #2: The 2001 recession actually began in March of 2001. However, it took until November of 2001 for the NBER to gather enough data to be sure that a recession had started. So, they held a press conference in November of 2001, told everybody that we were in a recession, and back-dated the start of the recession to March of 2001. This is WHY lots of people THINK that 9-11 caused a recession in the US. Clearly, it did not! The US economy was already headed south long before the events of that day, but since the announcement came so long after You get the point.

Example #3: The 2001 recession actually ended in November of 2001. However, it took until July of 2003 for the NBER to gather enough data to be sure that the recession was actually over. So, they held a press conference in July of 2003, told everybody that the recession was over, and back-dated the end of the recession to November of 2001. Notice the timing on this one: it’s kind of funny that when the NBER came out and announced we were in a recession, it was already pretty much over with.

Example #4: Our current recession actually began in December of 2007. However, it took until December of 2008 for the NBER to gather enough data to be sure that a recession had started. So, they held a press conference on December 11, 2008, told everybody that we were in a recession, and back-dated the start of the recession to December of 2007.

4. Implication:

II. Stable or Unstable?

A. Classical Economic Theory dominated _____ .

1. Economic life during the Industrial Era:

2. According to Classical Economists, a market-based economy is naturally _____ .

a. The economy would usually achieve:

b. Periods of high unemployment and high inflation would occur, but they would be:

3. Through _____ , the economy would _____ to periods of unemployment and inflation.

4. Classical Economists believed in _____ .

a. Business production of goods and services generates:

b. This law claims that:

5. Classical Economists believed the government should practice _____
_____ .

B. The Downfall of Classical Economic Theory:

Statistic	1929 Value	1933 Value	Change
Nominal GDP	\$103.6 billion	\$56.4 billion	-46%
Real GDP	\$865.2 billion	\$635.5 billion	-27%
CPI	17.2	13.2	-23%
UNE%	4%	25%	+525%

C. The Keynesian (pronounced Canes – E – un) Revolution

1. In 1936, a book called *The General Theory of Employment, Interest and Money* was published.

In it, author John Maynard Keynes (pronounced Canes) explained:

a. This is why Keynesian Economics is also called:

b. Today, Keynes is known as the:

2. Keynes believed that a market-based economy was inherently _____
due to:

3. Keynes claimed that a recession was caused by:

=> Emphasis SHOULD be placed on the _____ side of
the economy!

4. Keynes said that waiting around for the economy to “fix itself” =

The government should:

=>

III. The Aggregate Demand – Aggregate Supply Model

Goal for this Section:

A. Aggregate Demand (AD)

1. The concept refers to:

Who are “all buyers”?

2. Graph (panel on the next page)

The AD curve illustrates an _____ relationship between:



3. Explaining the Shape of the AD Curve

a.

b.

c.

B. Short-run Aggregate Supply (AS)

1. The concept refers to the:

2. Graph

The AS curve illustrates a _____ relationship between:



3. Explaining the Shape of the AS Curve

a.

b.

C. Short-run Macro Equilibrium

1. Definition:

2. Graph



3. There are TWO potential problems with a Short-run Macro EQ

a.

b.

D. Long-run Aggregate Supply (LRAS)

1. LRAS represents the quantity of output that domestic businesses are:

2. The LRAS curve will be a _____ .

3. Where will it be located on the graph?

IV. Taming the Business Cycle

A. STEP #1:

1. Graph



2. When the economy is in LREQ, the economy's:

- a.
- b.
- c.
- d.

B. STEP #2:

1. Option #1:

2. Option #2:

3. Option #3:

C. STEP #3:

1. Laissez Faire:

2. Fiscal Policy:

3. Monetary Policy:

4. Supply-Side Policy:

5. Trade Policy: