Economics 2 – Business Cycles

Whether the economy is growing or shrinking is determined by several factors, including interest rates, taxes, government spending, and the money supply. The money supply determines whether we have inflation or deflation. Inflation and deflation affect how and when businesses and consumers decide to spend.

Aggregate Demand (National) – The demand curve for an entire country.

> Aggregate demand curves shift if participants in the domestic economy change spending behavior due to interest rate changes, wealth changes or foreign exchange changes or if demand for exports overseas changes

Gross Domestic Product (GDP) – Measure of the size of an economy.

> Includes all final goods and services in a country produced by domestic and foreign sources
>
> It excludes common stock. When GDP is rising, the economy is expanding. When GDP is falling, the economy is shrinking

Government Purchases – Increased purchasing increases aggregate national demand.

Aggregate Supply (National) – The supply curve for an entire country. Generally, it is shaped like a hockey stick – flat with a 45 degree ramp as quantities increase and the overall economy nears peak production capacity.

Nominal – The current price or cost of an item.

Real – Price or cost adjusted for inflation.

Gross Domestic Product (GDP) – The sum of the price of all goods and services produced by a country during 1 year. Can be calculated based on all incomes earned associated with producing goods and rendering services or based on expenditures to purchase goods and services.