The Economic Cycle

The economic cycle is the natural fluctuation of the economy between periods of expansion (growth) and contraction (recession).

stages of econ cycle: boom/peak, recession, slump/trough, recovery

demand-side shock = surprise event that temporarily increases or decreases *demand* for goods or service

supply-side shock = unexpected event that changes the *supply* of a product or commodity, resulting in a sudden change in its price

pos./neg. output gaps = actual GDP is above/below the productive potential of the economy
potentially inflationary; boom + recovery
potentially deflationary; recession + slump

Determinants of Long-Run AS

def. relationship between the £level and output in LR

1. Technology
2. Productivity
3. Attitudes
4. Enterprise
5. Factor mobility
6. Institutional structure of the economy
7. Economic incentives

banking system — provides investment funds, IR etc.

LRAS curve represents
the normal capacity level
of output of the economy

Keynesian AS curve: