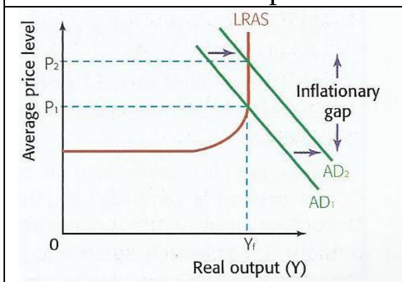
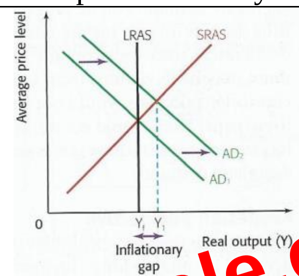
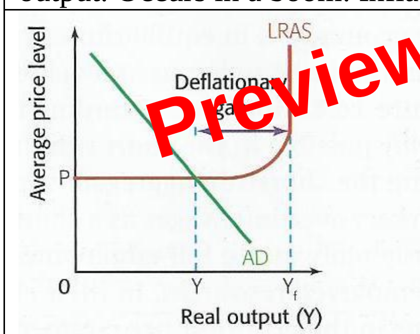
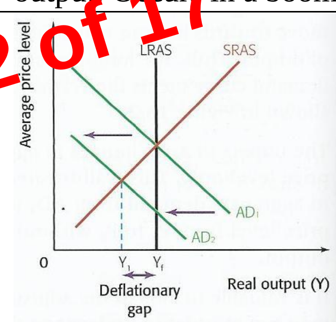
Business/Trade cycle The periodic or regular fluctuations in national income/economic activity/GDP. Alternatively, the economy moving through various stages including booms, recessions, slumps and recoveries.	**1. Boom (peak):** Output is high. The economy may well be working beyond its capacity. This leads to inflationary pressure. **C**onsumption and **I**nvestment will be high. **2. Recession:** Negative economic growth (two quarters/six months) – less being produced than before. Income and employment falls. Tax revenue falls and wage demands moderate. Inflation falls.
3. Slump (trough): Output at a low point. Unemployment will be high, **C**onsumption and **I**nvestment low. There could also be deflation. **4. Recovery (expansion):** Output begins to increase. Unemployment begins to fall. **C**onsumption and **I**nvestment begin to rise. Wages also start to move upwards.	**Output gaps** Positive output gap = when real output/GDP is above the potential level of output. Occurs in a boom. Inflationary. Negative output gap = when real output/GDP is below the potential level of output. Occurs in a slump. Deflationary.
 Keynesian diagram: Positive output gap = when real output/GDP is above the potential level of output. Occurs in a boom. Inflationary	 Monetarist diagram: Positive output gap = when real output/GDP is above the potential level of output. Occurs in a boom. Inflationary.
 Keynesian diagram: Negative output gap = when real output/GDP is below the potential level of output. Occurs in a slump. Deflationary.	 Monetarist diagram: Negative output gap = when real output/GDP is below the potential level of output. Occurs in a slump. Deflationary.
AD (aggregate demand) Total spending in an economy consisting of consumption, investment, government expenditure and net exports.	**Determinants of Aggregate Demand** Consumption, Investment, Government Spending and (X-M)
Consumption C. Biggest component of AD. The total of all household spending in the economy.	**Determinants of consumption are:** A. Changes in income B. Changes in interest rates C. Changes in wealth D. Changes in expectations/consumer confidence E. Changes in household indebtedness