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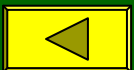
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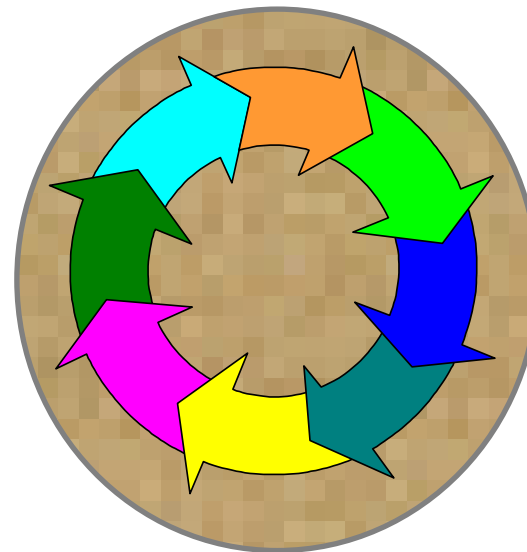
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## CHAPTER



# *Introduction to Economic Growth and Instability*

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# ECONOMIC GROWTH

*An increase in real GDP over some time period*

*An increase in real GDP per capita over some time period*

- Growth as a Goal
- Arithmetic of Growth
  - Rule of 70
- Main Sources of Growth
  - Increases in Resources
  - Increases in Productivity

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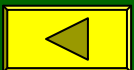
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# ECONOMIC GROWTH

## Growth in the United States

- Improved Products and Services
- Added Leisure
- Other Impacts
- Relative International Growth Rates

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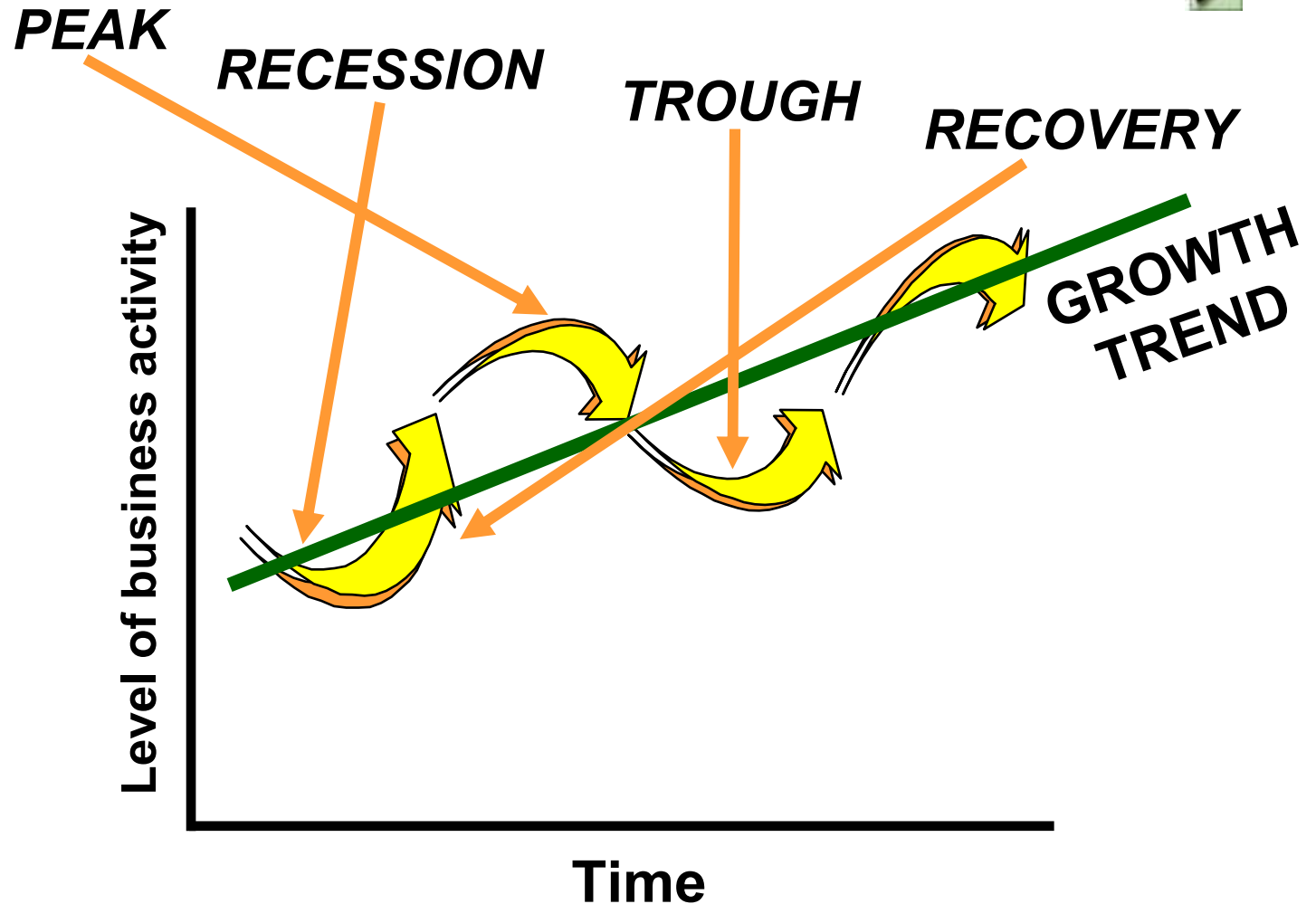
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# THE BUSINESS CYCLE

## Phases of the Business Cycle



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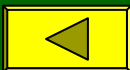
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# THE BUSINESS CYCLE

## *Causation: A First Glance*

- Many Causation Theories
- Cyclical Impact
  - Capital Goods
  - Consumer Durables
  - Service Industries
  - Nondurable Consumer Goods

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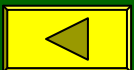
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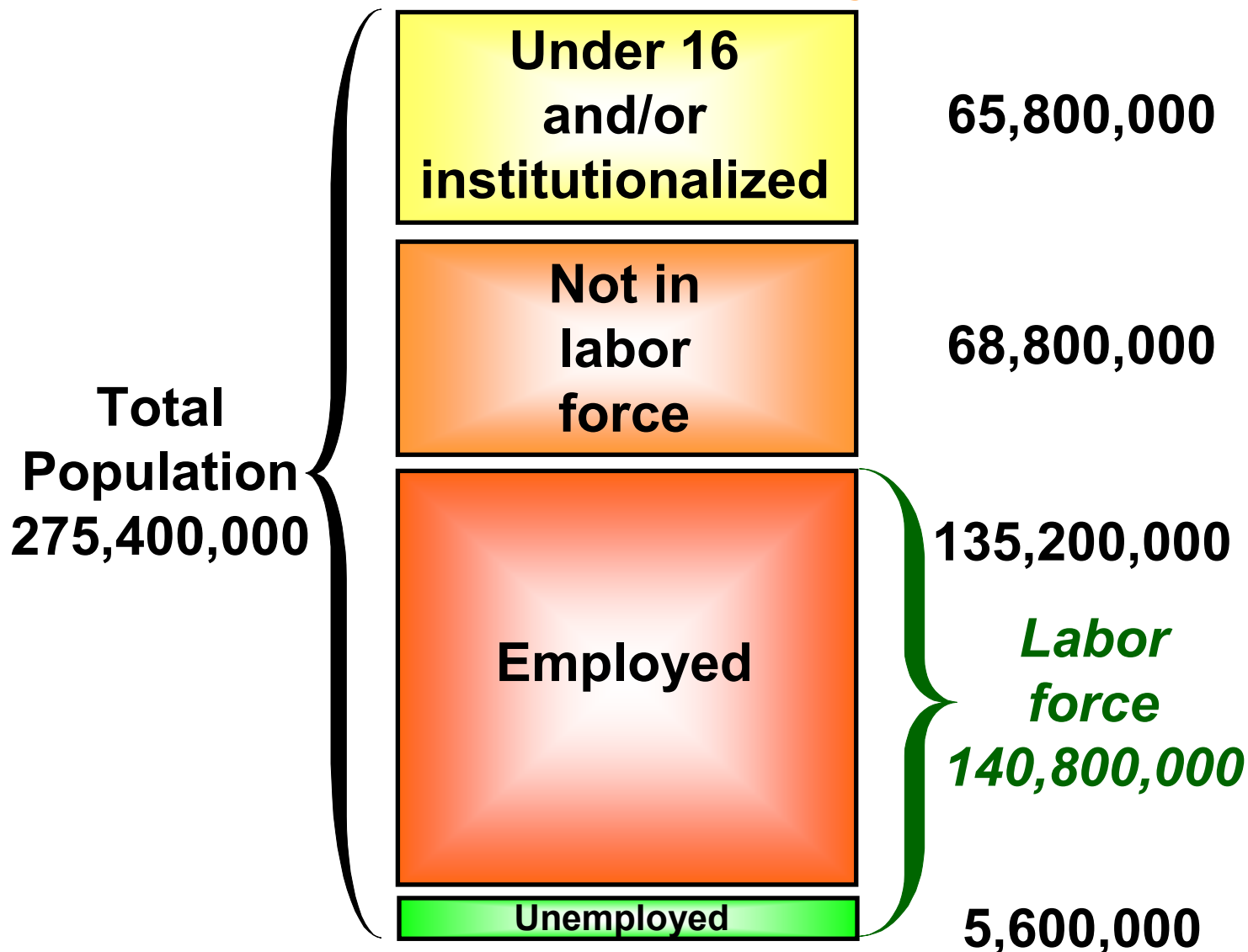
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# UNEMPLOYMENT

## Measurement of Unemployment, 2000



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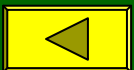
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# UNEMPLOYMENT

## Measurement of Unemployment, 2000

$$\text{Unemployment rate} = \frac{\text{unemployed}}{\text{labor force}} \times 100$$

## Part-Time Employment

## Discouraged Workers

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# UNEMPLOYMENT

## *Types of Unemployment*

Frictional Unemployment  
Structural Unemployment  
Cyclical Unemployment  
Full-Employment Rate of  
Unemployment  
Natural Rate of  
Unemployment (NRU)



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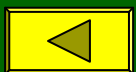
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# UNEMPLOYMENT

*Economic Costs of Unemployment*

**GDP Gap and Okun's Law**

*The amount by which actual GDP falls short of potential GDP*

*For every 1% unemployment exceeds the natural rate...*

*Approximately a  
2% GDP Gap occurs*

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# UNEMPLOYMENT

## *Unequal Burdens of Unemployment*

- Occupation
- Age
- Race and Ethnicity
- Gender
- Education
- Duration

## *Noneconomic Costs*

## *International Comparisons*

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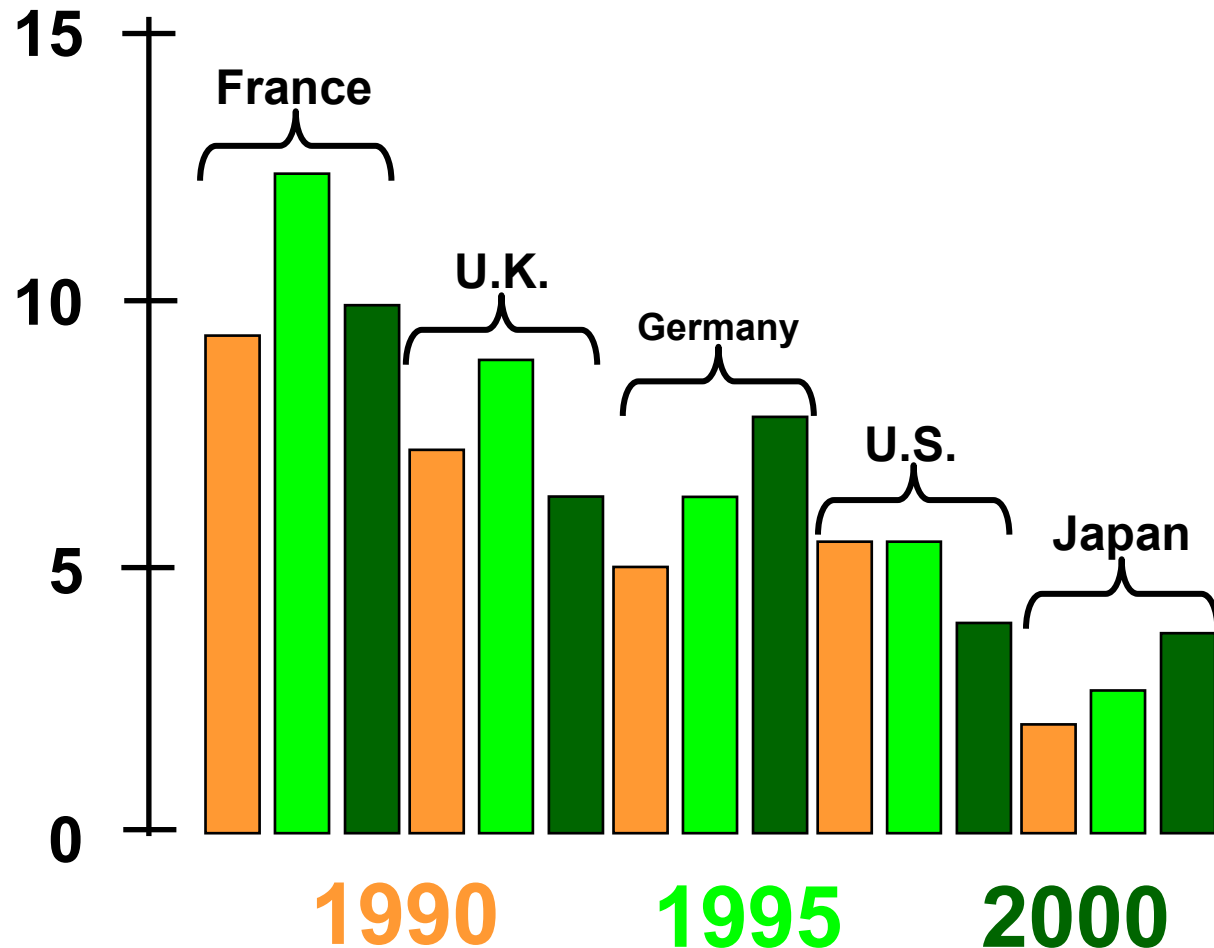


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## GLOBAL PERSPECTIVE

### Unemployment Rates in Five Industrial Nations 1990 - 2000



Source: Economic Report of the President

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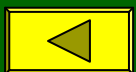
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# INFLATION

## *Defined and Measurement*

- A rising general level of prices
- Rate of inflation calculated using index numbers
- Rule of 70
  - *Shortcut to determine doubling time*
- Facts of Inflation



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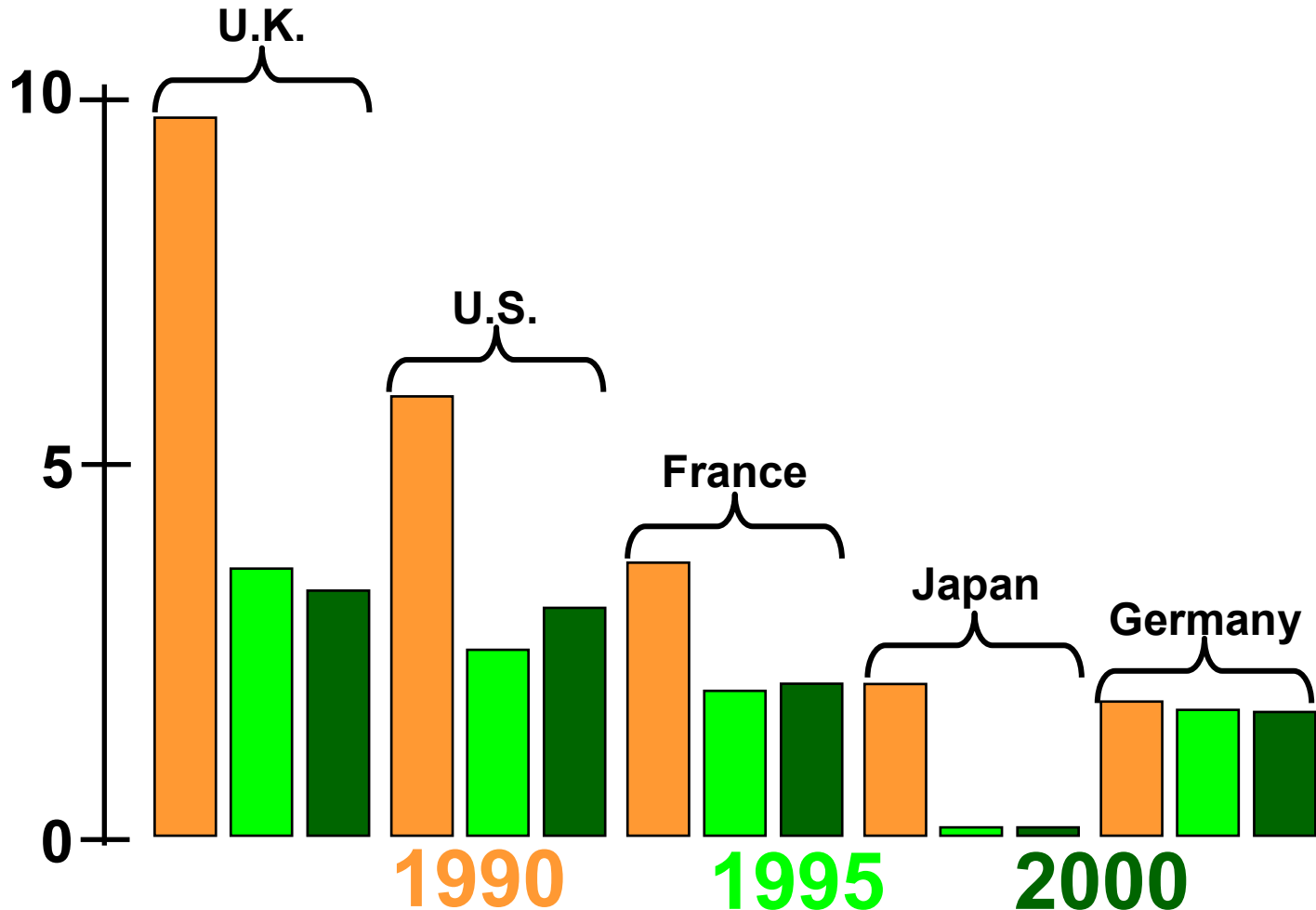


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## GLOBAL PERSPECTIVE

### Inflation Rates in Five Industrial Nations 1990 - 2000



Source: Economic Report of the President

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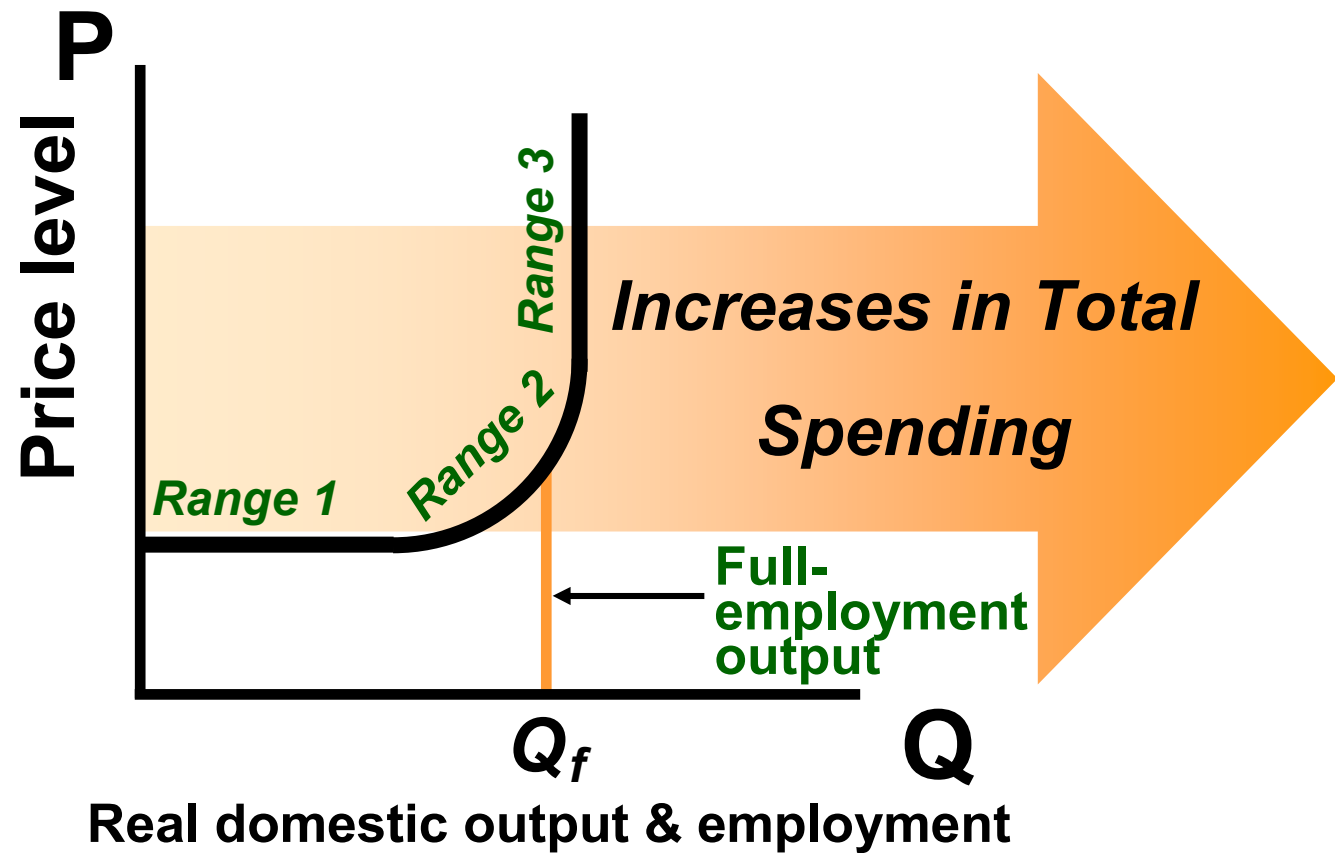


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# INFLATION

## Types of Inflation

## DEMAND-PULL INFLATION



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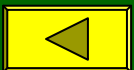
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# INFLATION

## *Types of Inflation*

## DEMAND-PULL INFLATION COST-PUSH INFLATION

- Rising Per-Unit Production Costs
- Supply-Side Inflation
  - Supply Shocks
- Complexities

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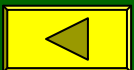
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# REDISTRIBUTIVE EFFECTS OF INFLATION

*Nominal Income*

*Real Income*

*Anticipations*

- *Anticipated Inflation*

- *Unanticipated Inflation*



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# REDISTRIBUTIVE EFFECTS OF INFLATION

## *Who is Hurt by Inflation?*

- *Fixed-Income  
Receivers*
- *Savers*
- *Creditors*

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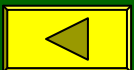
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# REDISTRIBUTIVE EFFECTS OF INFLATION

*Who is Unaffected or  
Helped by Inflation?*

- *Flexible-Income  
Receivers*
- *Cost of Living  
Adjustments (COLAs)*
- *Debtors*

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# REDISTRIBUTIVE EFFECTS OF INFLATION

## *Addenda*

- *Deflation*
- *Mixed Effects*
- *Arbitrariness*

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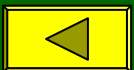
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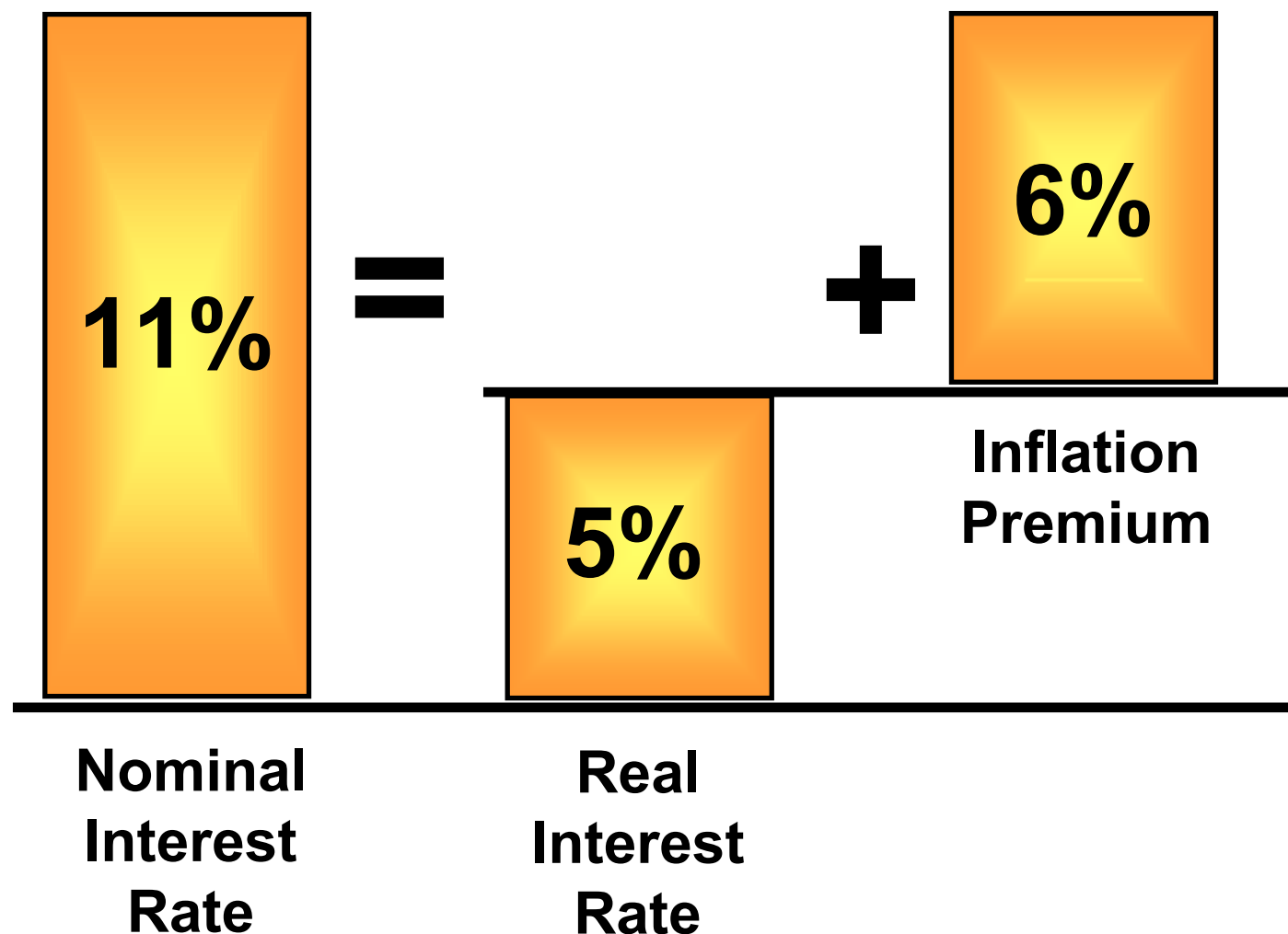
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# ANTICIPATED INFLATION



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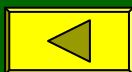
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# EFFECTS OF INFLATION ON OUTPUT

- **Cost-Push Inflation and Real Output**
- **Demand-Pull Inflation and Real Output**
- **Hyperinflation & Breakdown**



*Chapter Conclusions*

# KEY TERMS

economic growth

rule of 70

productivity

business cycle

peak

recession

trough

recovery

labor force

unemployment rate

discouraged workers

frictional unemployment

structural unemployment

cyclical unemployment

full-employment rate of unemployment

natural rate of unemployment (NRU)

potential output

GDP gap

Okun's Law

inflation

demand-pull inflation

cost-push inflation

per-unit production costs

nominal income

real income

anticipated inflation

unanticipated inflation

cost of living adjustments

COLAs

real interest rate

nominal interest rate

deflation

hyperinflation

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# ***BUILDING THE AGGREGATE EXPENDITURES MODEL***

***Chapter 9***