Trade (Business) Cycle

# Starter - Recap Question

**Instructions:** Test yourself with the below quick question

What is meant by GDP?

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How do we calculate the rate of Economic Growth?

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At what rate is our economy growing at currently?

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# Presentation 1 – Intro to the Trade Cycle

Complete the activities below so as to have a complete set of Notes:

**Definition:** Trade Cycle

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Economic activity is measured by real GDP

*Real GDP Recap:*the total value of a country’s output in a year, adjusted for inflation

*Useful approximation:*If nominal GDP growth is 5% and inflation 2%, real GDP growth is 3%

**Diagram:** Trade cycle

Label your diagram to show:

* *Actual GDP line:* shows how the actual level of output (Y) fluctuates over time
* *Trend line:* shows how the potential output of our economy is estimated to grow over time
* *The 4 Phases:* 
  + Boom: GDP above trend and fast growing
  + Recession: GDP falling – goes below trend
  + Slump: GDP is below trend and stagnant
  + Recovery: GDP rising – goes above trend
* *Output gaps*

# Presentation 2 – Phases of the Trade Cycle

Complete the activities below so as to have a complete set of Notes:

**Definitions:**

Boom

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Recession

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Slump

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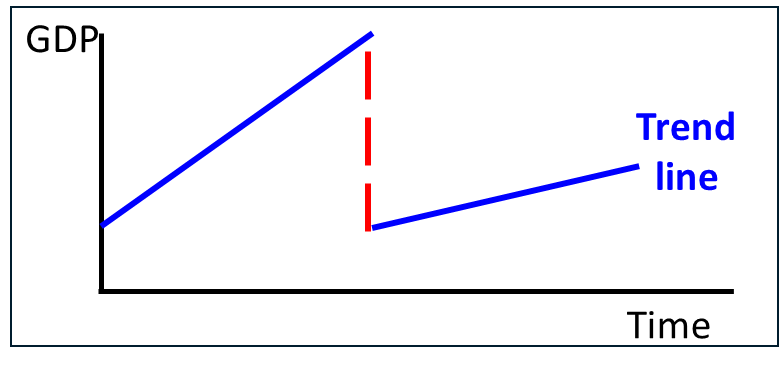
Recovery

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**Table:** Complete the table with the different characteristics of each stage of the trade cycle

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| --- | --- | --- | --- | --- |
|  | **Boom** | **Recession** | **Slump** | **Recovery** |
| Rate of economic growth |  |  |  |  |
| Consumer spending |  |  |  |  |
| Unemployment |  |  |  |  |
| Investment by firms |  |  |  |  |
| Inflation |  |  |  |  |

*Hysteresis effect:*a prolonged slump following a deep recession can damage an economy’s potential growth rate.

Lost output maybe unrecoverable, and the trend growth rate may be slower

**Key Question:** Why does Hysteresis occur?

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*The Accelerator Effect:*when an increase in GDP results in a proportionately larger rise in capital investment spending.

I.e. we often see a surge in investment when an economy is growing quite strongly.

**Key Question:** How does the accelerator effect help to explain the economic cycle?

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# Chart: UK GDP Takes Major Hit From Coronavirus | StatistaData task: Recent History of UK Trade Cycle

**Instructions:** Examine the chart and answer the Questions?

What phase of the Trade cycle did the UK enter in 2008?

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What phase or phases of the trade cycle was the UK in from 2010-2019?

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What is meant by a double dip recession?

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Did the UK witness a double dip recession at any point from 2010 to 2019?

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What might have caused/prevented this?

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What happened in 2020?

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**Challenge:** What do you think will happen over the next year?

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# MCQs

**Instructions:** Answer the below multiple-choice questions.

1. Economic growth is usually calculated from which measure:
2. the retail price index
3. real national income
4. the output of the manufacturing industry
5. consumer expenditure

Can you explain your answer?

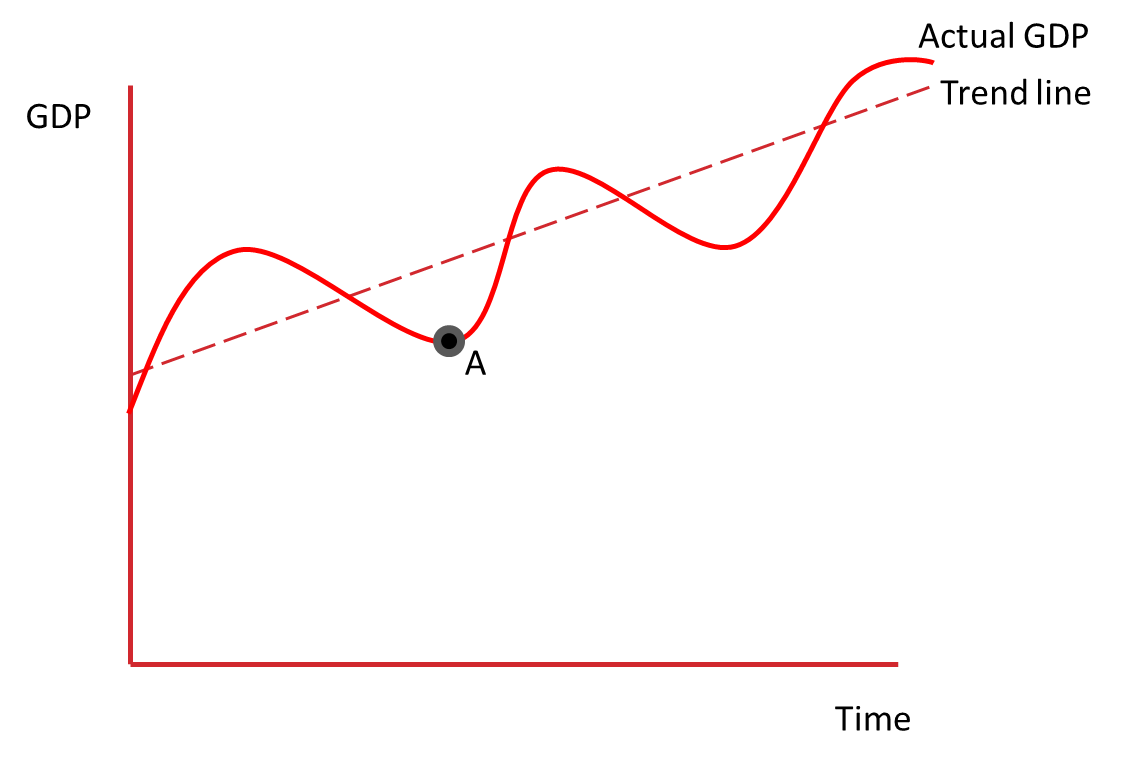
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1. Which one of the following is ***most likely*** to occur in the ***boom*** phase of an economic cycle?
   1. Rising national income, falling unemployment and a negative output gap
   2. Rising imports, rising profits and a positive output gap
   3. Rising consumption and investment expenditure and a negative output gap
   4. Excess demand, falling employment and a positive output gap

Can you explain your answer?

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1. If the economy is operating at point A, which one of the following policies is ***most likely*** to be employed by the government?
2. An increase in unemployment benefit
3. Higher interest rates
4. A reduction in income tax
5. Cutting the education budget

Can you explain your answer?

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