

### Measuring Short-Run Economic Growth

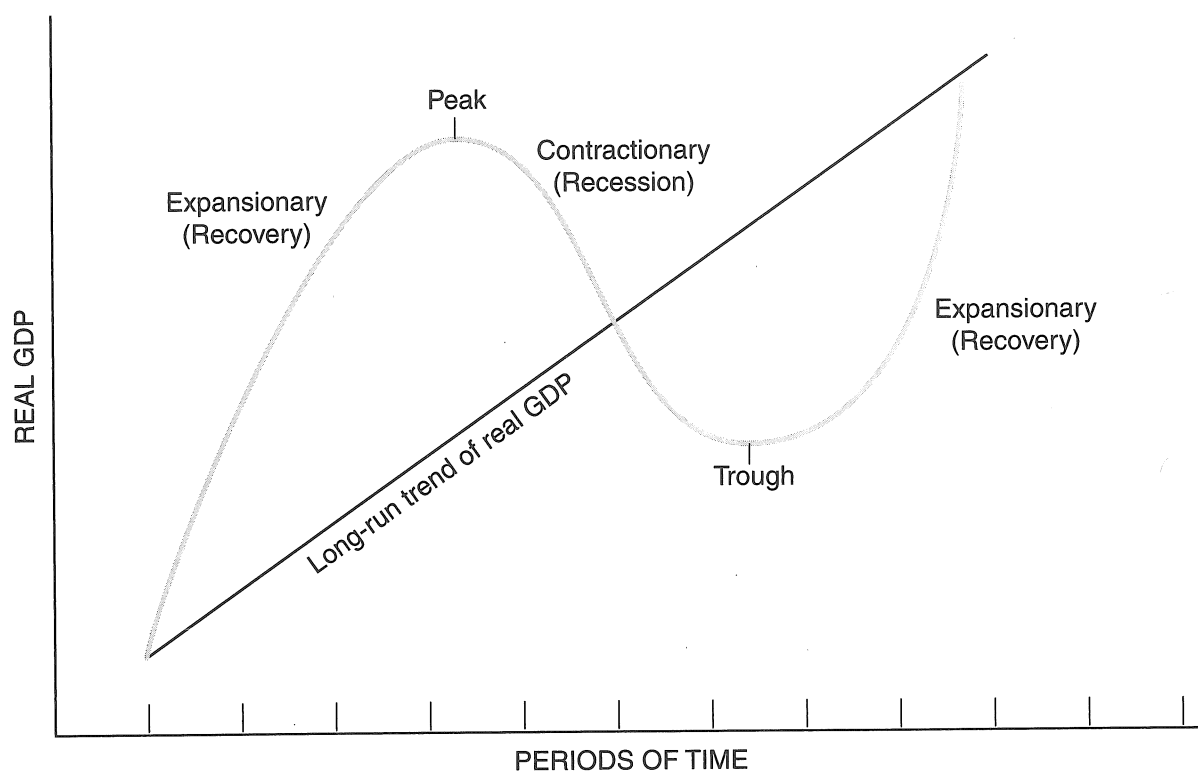
To measure fluctuations in output (short-run economic growth), we measure increases in the quantity of goods and services produced in the economy from quarter to quarter or year to year. The *gross domestic product*, or GDP, is commonly used to measure economic growth. The GDP is the dollar value at market prices of all final goods and services produced in the economy during a stated period. Real GDP is the GDP adjusted for changes in the price of goods.

### The Business Cycle

The *business cycle* refers to the ups and downs in an economy. In the short run, the economy alternates between upturns and downturns as measured by the three macroeconomic indicators. Figure 1-10.1 shows a graph of the business cycle.



Figure 1-10.1  
The Business Cycle

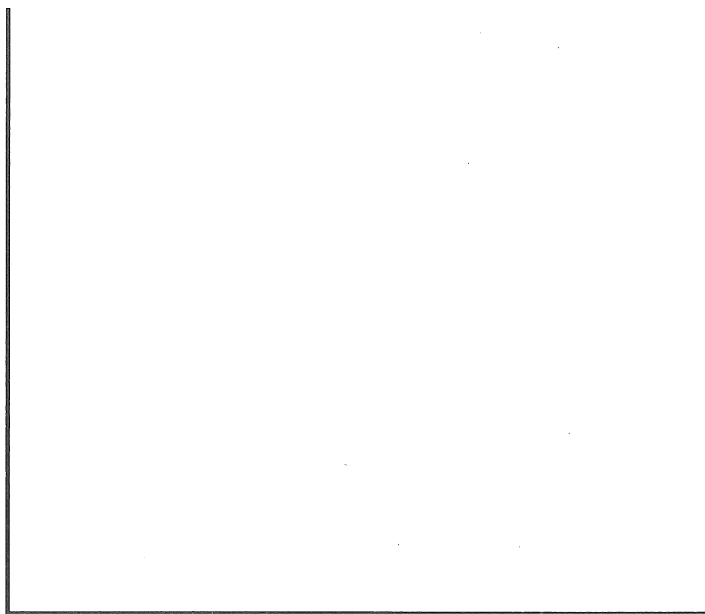


The curved line on Figure 1-10.1 shows a sample business cycle for an economy. The straight line represents the long-run trend of real GDP.

The business cycle can be divided into four phases:

1. *Expansionary*. Real output in the economy is increasing and the unemployment rate is declining. As the economic expansion continues, inflation may begin to accelerate. The early part of an expansionary phase is also called a recovery phase.
2. *Peak*. Real output, GDP, is at its highest point of the business cycle.
3. *Contractionary*. Real output in the economy is decreasing, and the unemployment rate is rising. As the contraction continues, inflationary pressures subside. The later stage of a contractionary phase is also called a recession.
4. *Trough*. The lowest point of real GDP reached during the business cycle is known as the trough. If the trough is particularly deep, it may be called a depression. A depression is an economic situation where the level of output falls to especially low levels and unemployment climbs to very high levels. There is no precise decline in output at which a serious recession becomes a depression. However, most business cycles do not end in a depression.

Draw a graph of a business cycle using unemployment as your measure of economic activity. That is, label the vertical axis with the unemployment rate. Make sure that you also label the horizontal axis. Label the phases of the business cycle on your graph. Remember that you are graphing the unemployment rate (rather than output) on your graph. Think about what happens to the unemployment rate during each phase of the business cycle!



On your graph, plot a point indicating where in the business cycle you think the economy is currently operating. Explain how you selected that location.