

Ch 9 Business Cycles

- Business Cycle: the repeated sequence of economic expansion - decline - recovery
- How can we counteract cycles?
 1. What are the causes?
 2. How should policy respond?
- 9.1 What is a Business Cycle?
- 9.2 The Canadian Historical Record
- 9.3 Business Cycle Facts
- 9.4 Analysis: A Preview

9.1 What is a Business Cycle?

- Expansion - contraction - recovery cycle experienced simultaneously in many sectors of the economy
- Five important features of a business cycle:
 1. Aggregate impact
 2. Expansions and contractions
 3. Comovement
 4. Recurrent, not periodic
 5. Persistence

9.2 The Canadian Historical Record to WWII

- Chronology of business cycles - see Table 9.1
- 1873-1914:
 - 233 months of contraction
 - 262 months of expansion
- WWI-Great Depression-WWII:
 - Prosperity in the 1920s
 - The Great Depression => two contractions
1929-1933, 1937-1938
- WWII: Real output in 1944 was 180% that of 1938

9.2 The Canadian Historical

Record - Post WWII

- 1945-1974: one of six contractions lasted more than one year
- 1949-53 expansion - Korean War
- 1960s expansion - Vietnam War
- 1961-1974 - record 160-month expansion
- 1973 - OPEC - quadrupling of oil prices
STAGFLATION
- 1981-1982 - recession to combat inflation

9.2 The Canadian Historical Record

- SEVERITY
- pre-1929: 20 months average contraction, 27 months average expansion
- post-1945: 12 months average contraction, 56 months average expansion
- MADE IN CANADA?
- Since 1970, a significant portion of cycles is made in Canada - see Fig 9.2

9.3 Business Cycle Facts

- Comovement of key variables
- Direction in relation to aggregate activity:
 - procyclical
 - countercyclical
 - acyclical
- Timing relative to cycle turning points:
 - leading variable
 - coincident variable
 - lagging variable

9.4 Business Cycle Analysis: A Preview

- Leading indicators help economists forecast and predict the future course of the economy
- What are the alternative explanations?
- What are policy recommendations?
- Factors: Shocks (wars, invention, drought)
- Theories: Classical, Keynesian

9.4 Business Cycle Analysis: A Preview

- Analysis: AD-AS Model
- Components:
 - Aggregate Demand curve
 - Short-Run Aggregate Supply Curve
 - Long-Run Aggregate Supply Curve
- These are plotted in (P, Y) space
- Examine the impact of AD and AS shocks