

Economic Fluctuations and Business Cycles (7 of 16)

Exhibit 12.3 U.S. Recessions (1929–2016)

Starting Month	Ending Month	Duration (months)	Decline in Real GDP from Peak to Trough
August 1929	March 1933	43	26.3%
May 1937	June 1938	13	3.3%
February 1945	October 1945	8	12.7% ¹
November 1948	October 1949	11	1.5%
July 1953	May 1954	10	1.9%
August 1957	April 1958	8	3.0%
April 1960	February 1961	10	0.3%
December 1969	November 1970	11	0.2%
November 1973	March 1975	16	3.1%
January 1980	July 1980	6	2.2%
July 1981	November 1982	16	2.5%
July 1990	March 1991	8	1.3%
March 2001	November 2001	8	0.3%
December 2007	June 2009	18	4.3%

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The Great Depression of 1929–1933 illustrates the three key properties of economic fluctuations:

1. Co-movement in economic aggregates
2. Limited predictability
3. Persistence in the rate of growth

THREE KEY FACTS ABOUT ECONOMIC FLUCTUATIONS

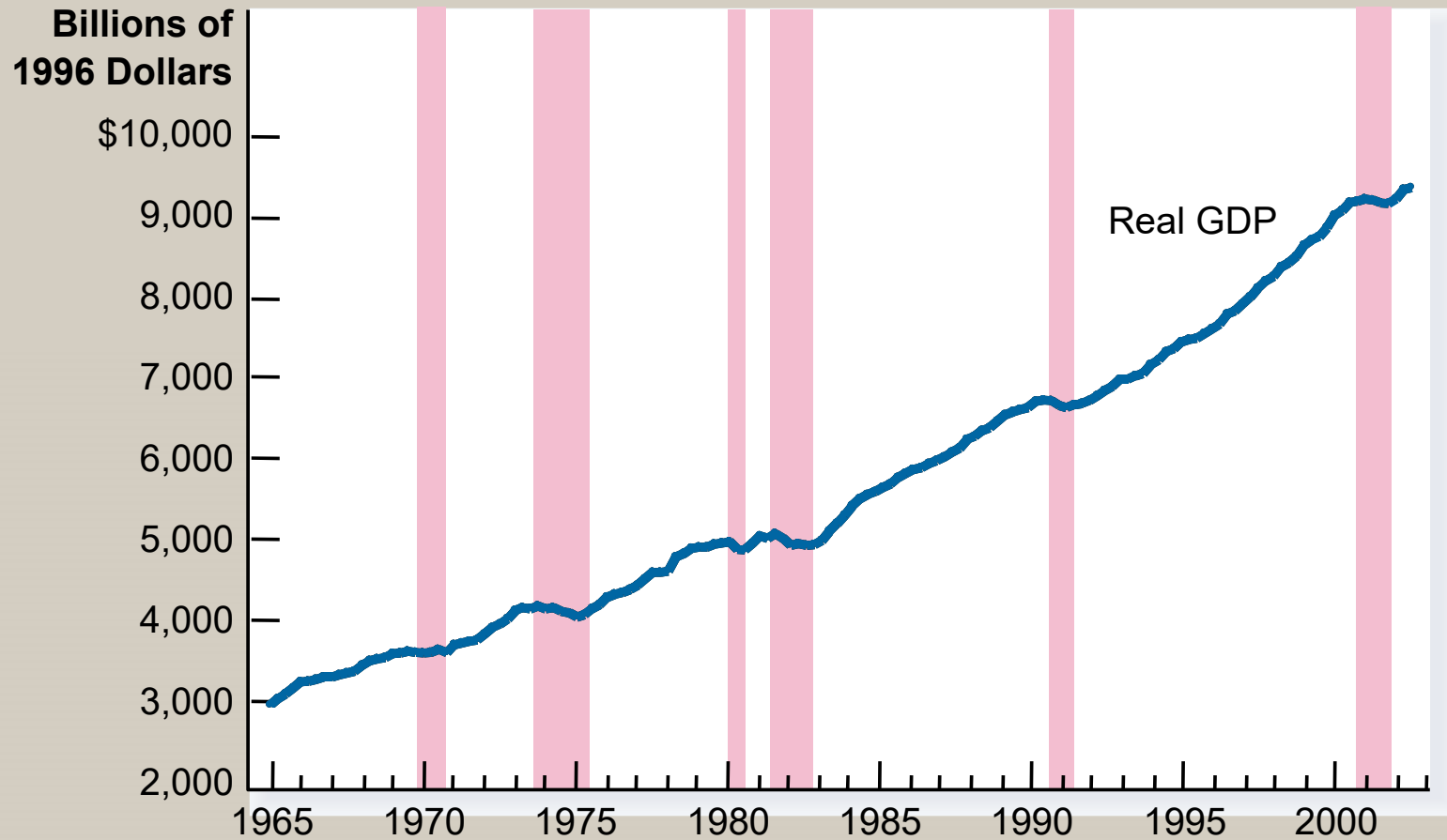
1. Economic fluctuations are **irregular** and **unpredictable**.
 - Fluctuations in the economy are often called the *business cycle* (*iş döngüsü, iş devri, konjonktür devirleri, konjonktür dalgaları*).
2. Most macroeconomic variables **fluctuate together**.
3. As output falls, unemployment rises.

Hence

- (1) **co-movement**
- (2) **limited predictability**
- (3) **persistence**

A Look At Short-Run Economic Fluctuations

(a) Real GDP



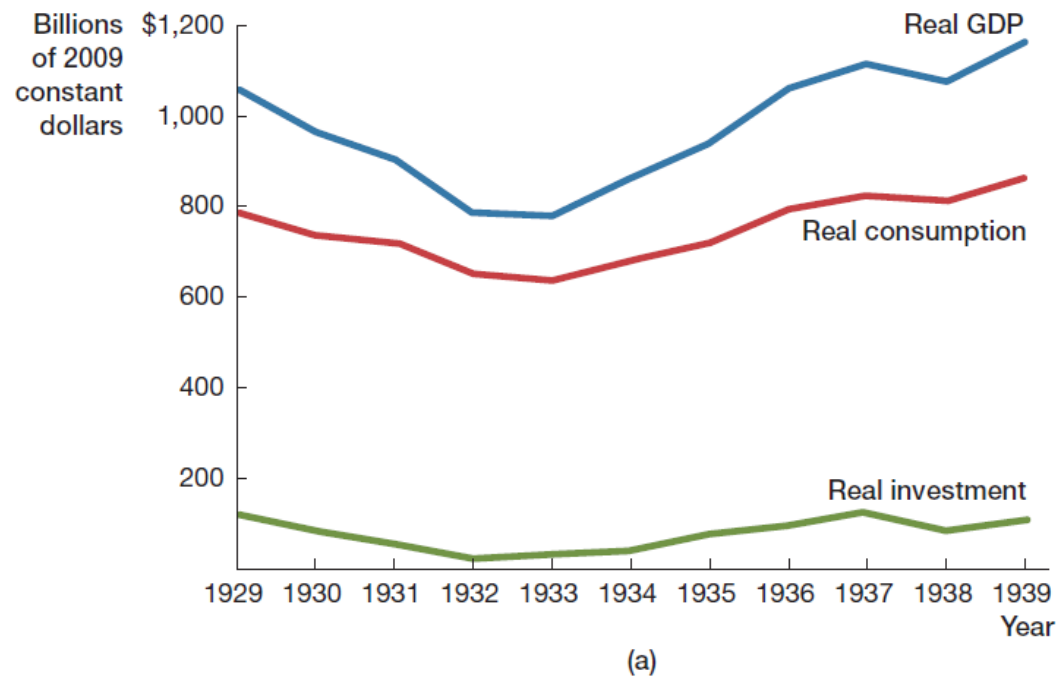
THREE KEY FACTS ABOUT ECONOMIC FLUCTUATIONS

2. Most macroeconomic variables fluctuate together.

- Most macroeconomic variables that measure some type of income or production fluctuate closely together.
- Although many macroeconomic variables fluctuate together, they fluctuate by different amounts.

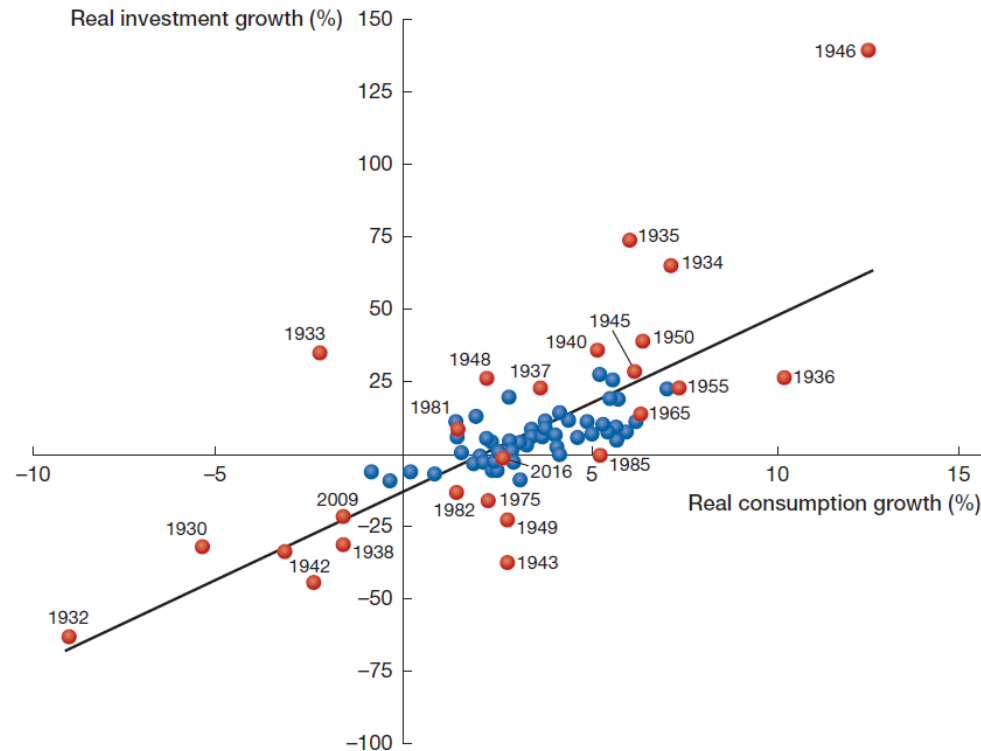
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Exhibit 12.5, Panel (a) The Great Depression



Economic Fluctuations and Business Cycles (10 of 16)

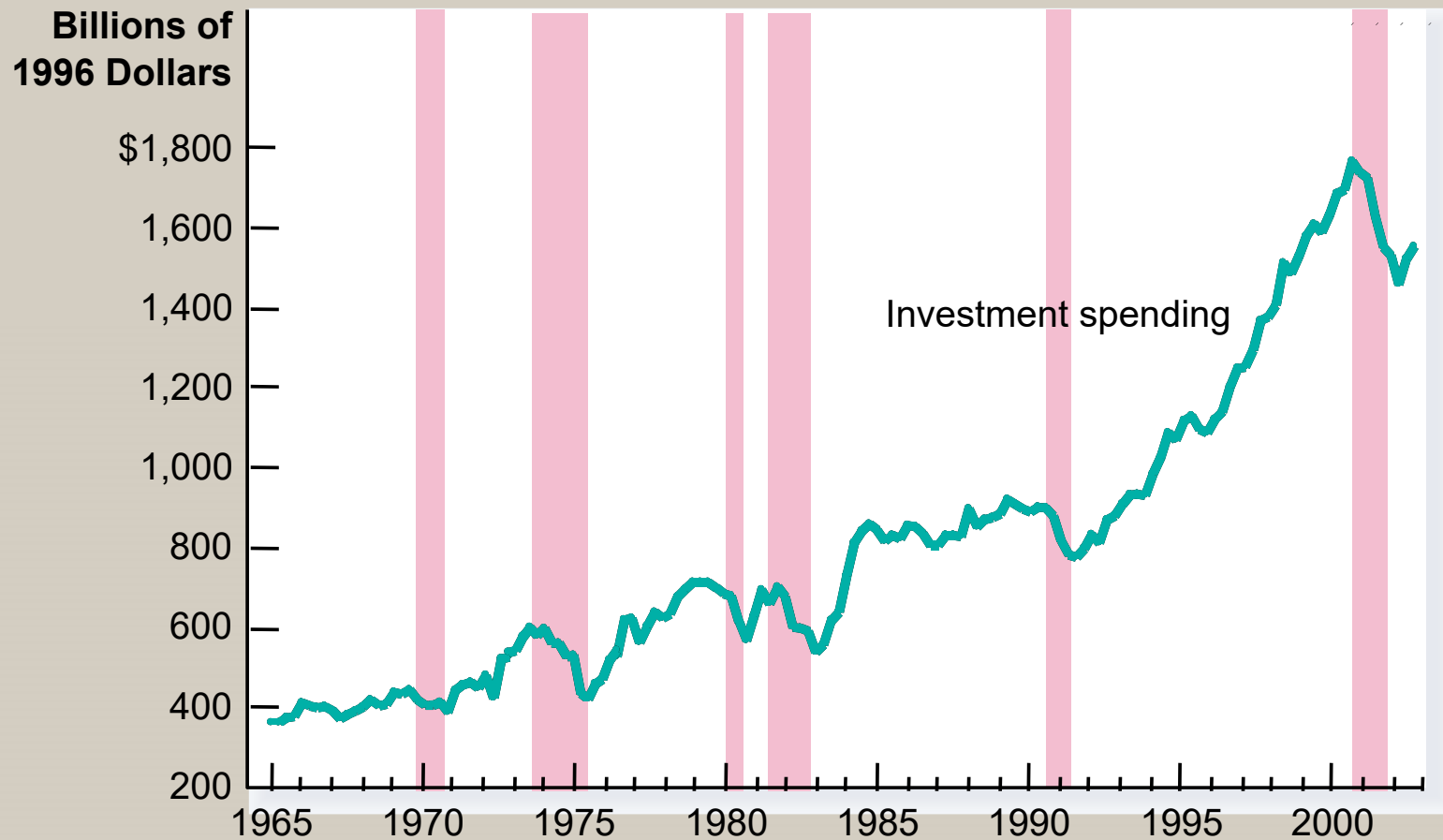
Exhibit 12.4 Real Consumption Growth Versus Real Investment Growth (1929 2013)



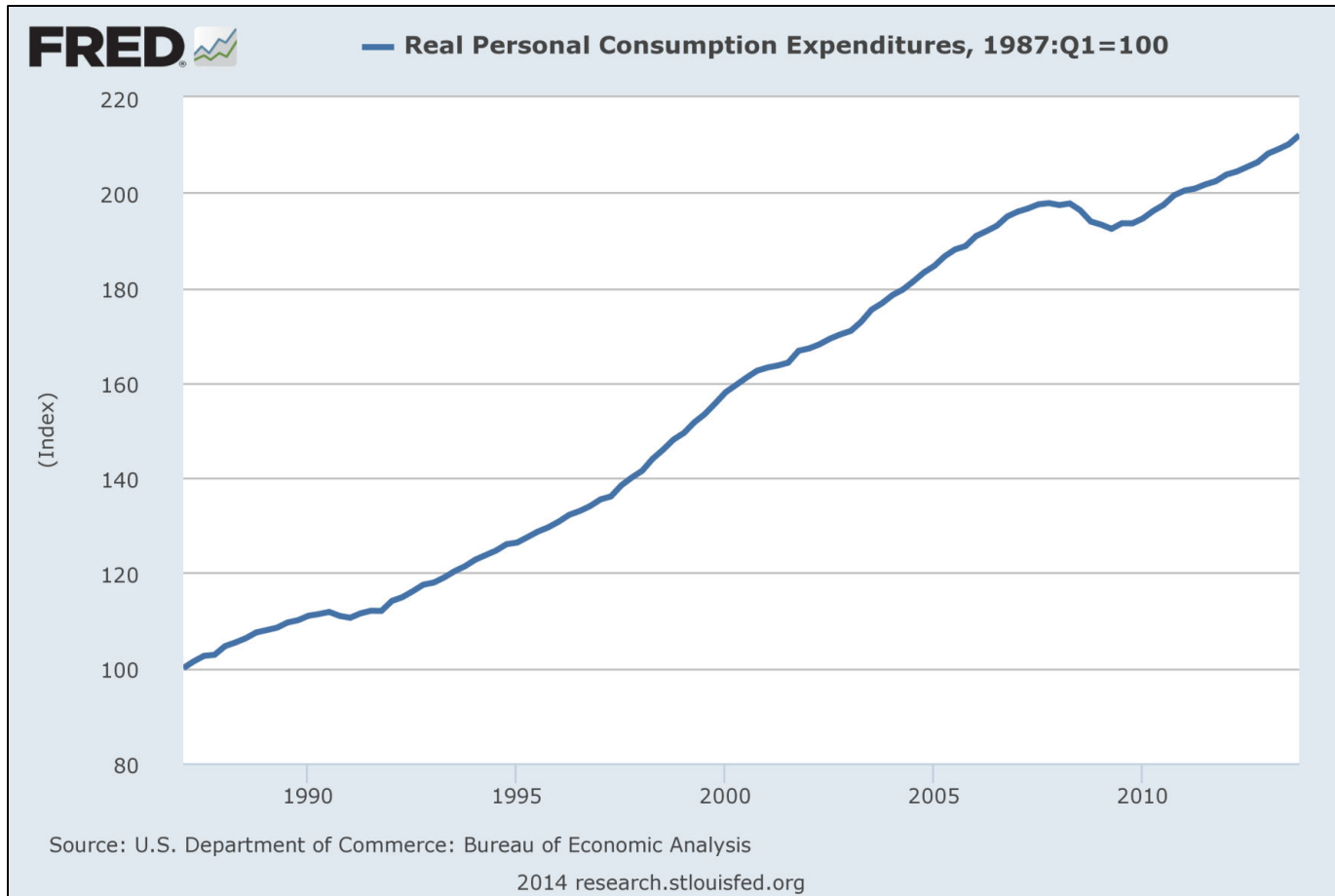
clear + relationship between growth in real investment and growth in real consumption

Look At Short-Run Economic Fluctuations

(b) Investment Spending



Short-Run Fluctuations (6 of 8)



Real consumption falls for four quarters from 2008:Q3 to 2008:Q2.

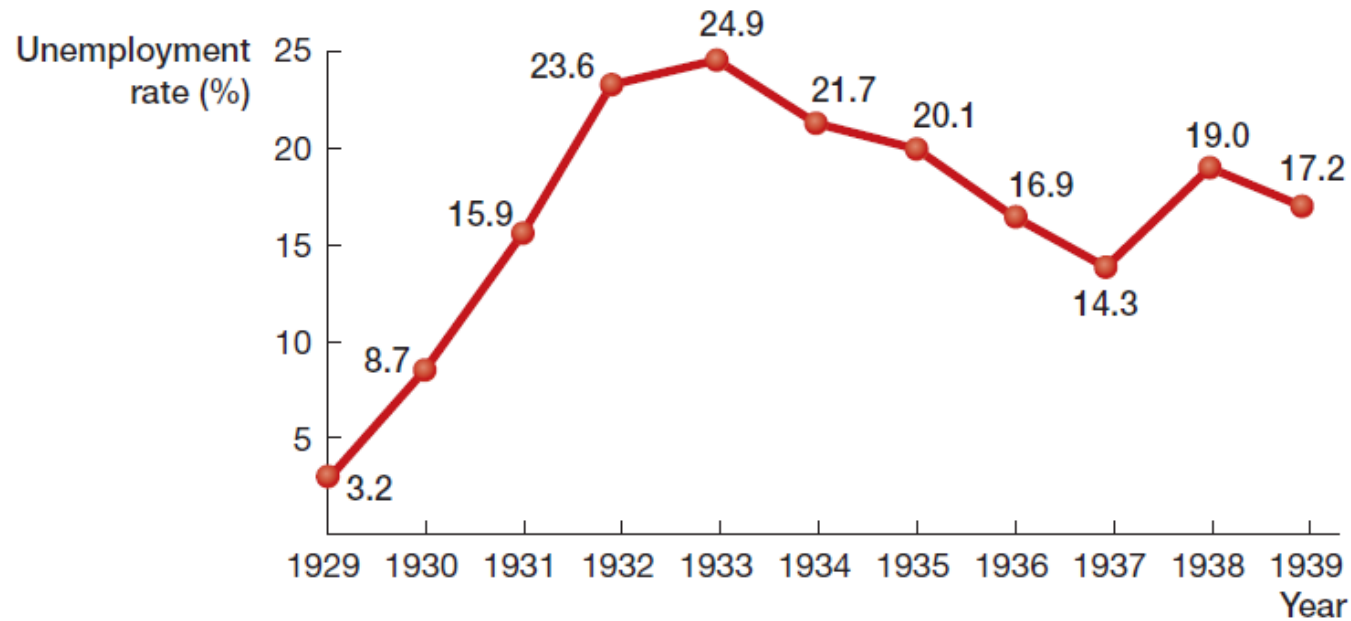
THREE KEY FACTS ABOUT ECONOMIC FLUCTUATIONS

3. As output falls, unemployment rises.

- Changes in real GDP are inversely related to changes in the unemployment rate.
- During times of recession, unemployment rises substantially.

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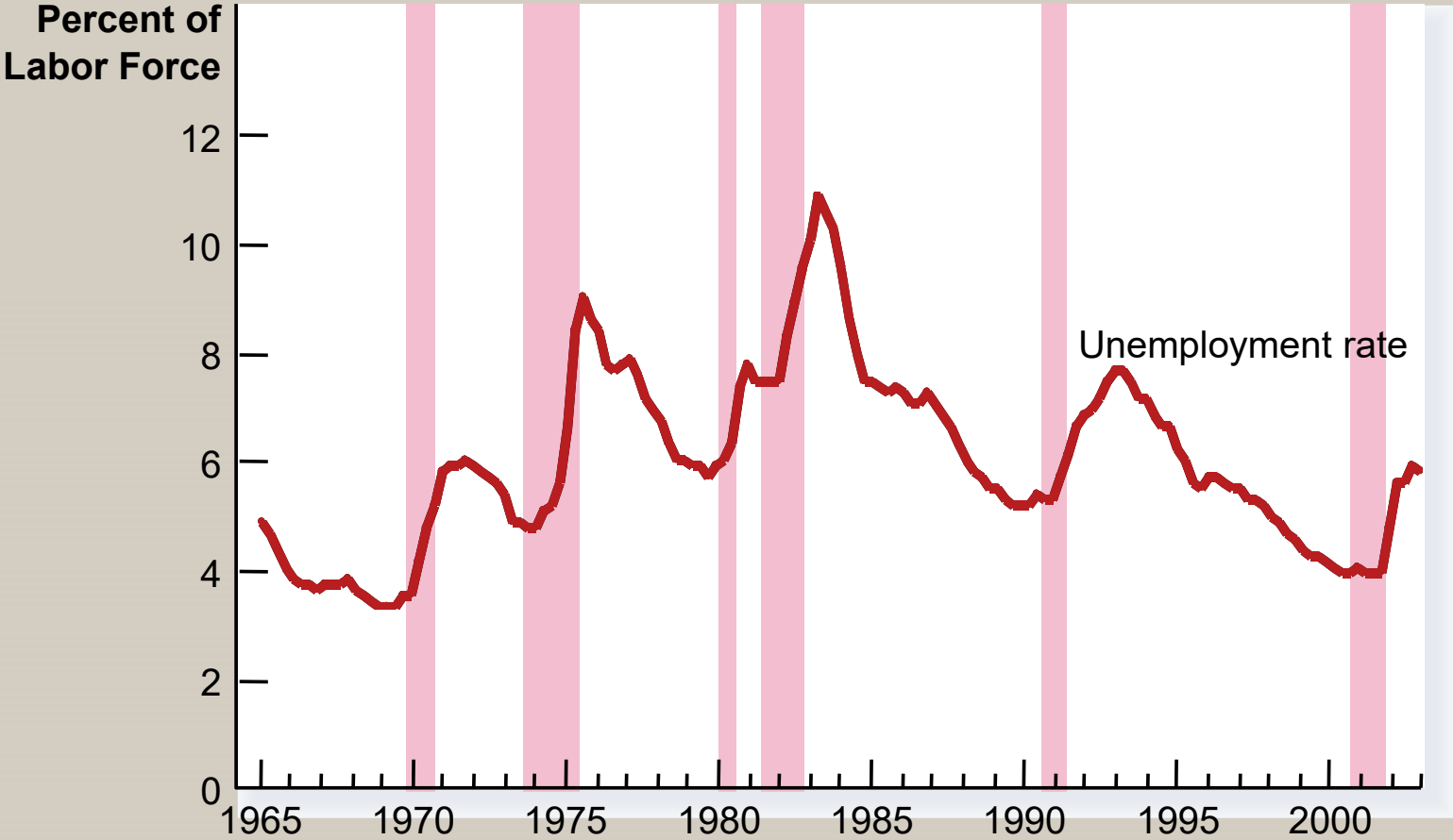
Exhibit 12.5, Panel (b) The Great Depression



(b)

A Look At Short-Run Economic Fluctuations

(c) Unemployment Rate



Economic Fluctuations and Business Cycles

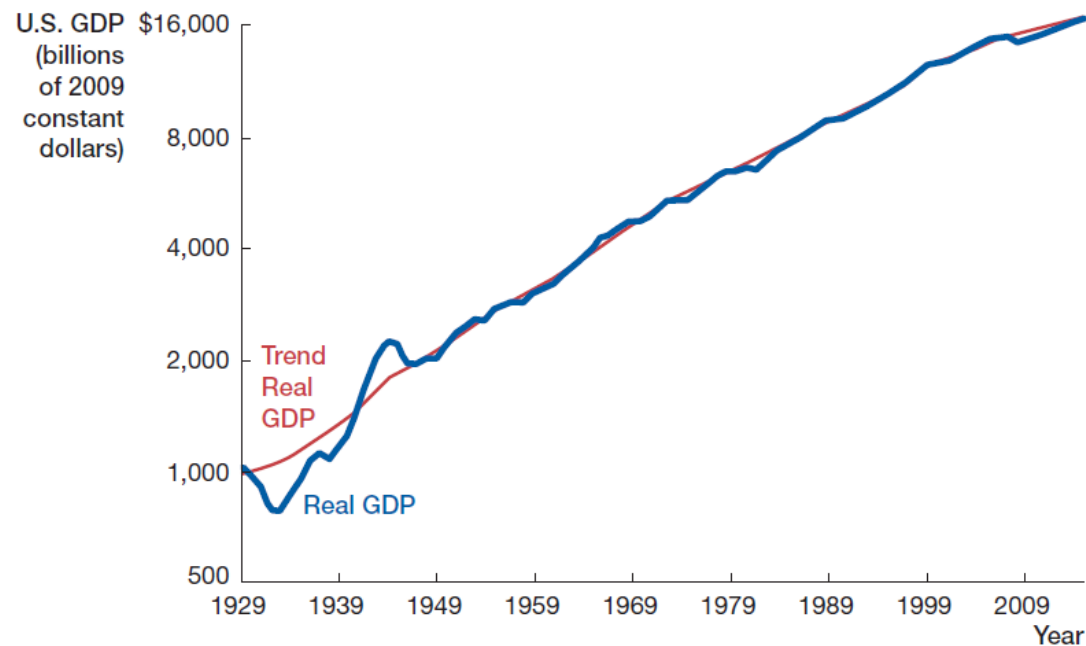
Economic fluctuations or business cycles:

Short-run changes in the growth of GDP.

We can examine the business cycle by comparing the path of real GDP to a trend line.

Economic Fluctuations and Business Cycles

Exhibit 12.1 Real U.S. GDP and a Trend Line (1929–2016; billions of 2009 constant dollars)



Economic Fluctuations and Business Cycles

Exhibit 12.2 Percentage Deviation Between U.S. Real GDP and Its Trend Line (1929-2016)

