

4 Measuring the economy – Part 2

Name: _____ Class: _____ Date: _____

Vocabulary

Write each word three times.

English	Write it 3 times (English)		
Economic growth	_____	_____	_____
business cycle	_____	_____	_____
boom	_____	_____	_____
recession	_____	_____	_____
Unemployment	_____	_____	_____
frictional unemployment	_____	_____	_____
structural unemployment	_____	_____	_____
cyclical unemployment	_____	_____	_____
Inflation	_____	_____	_____
purchasing power	_____	_____	_____
consumer price index	_____	_____	_____
demand-pull inflation	_____	_____	_____
cost-push inflation	_____	_____	_____

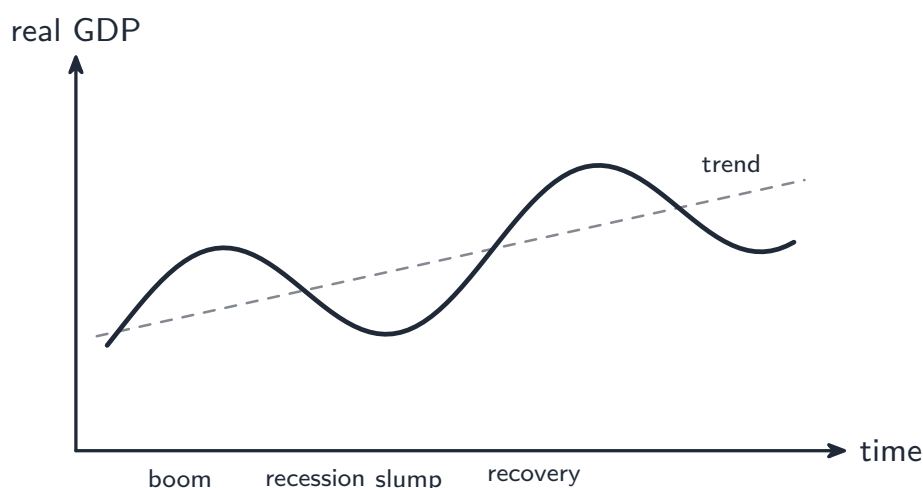
Recall

In **Part 1** you met GDP, the circular flow of income, and aggregate demand and supply. Part 2 looks at how the economy **grows** and **swings** (the business cycle), and at two big problems – **unemployment** and **inflation**.

New ideas

■ 1 Economic growth and the business cycle

Economic growth is a rise in a country's real GDP over time. But output does **not** grow smoothly. The **business cycle** is the up-and-down pattern of output, with four phases: **boom** (fast growth), **recession** (falling output), slump (the low point), and recovery – all around a rising long-run trend.

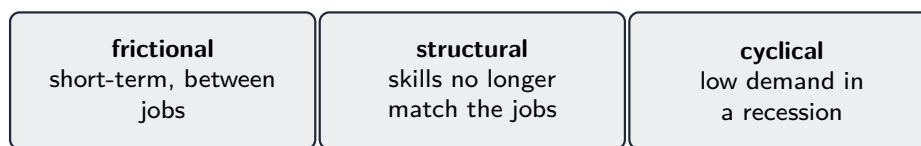


Micro-check. Name the phase of the business cycle where output is **falling**. [1]

■ 2 Unemployment

Unemployment means people who are able and willing to work, and looking for a job, but cannot find one. The main types:

- **frictional unemployment** – short-term, while people move between jobs;
- **structural unemployment** – an industry declines, so workers' skills no longer match the jobs;
- **cyclical unemployment** – caused by low demand in a recession (usually the largest type).



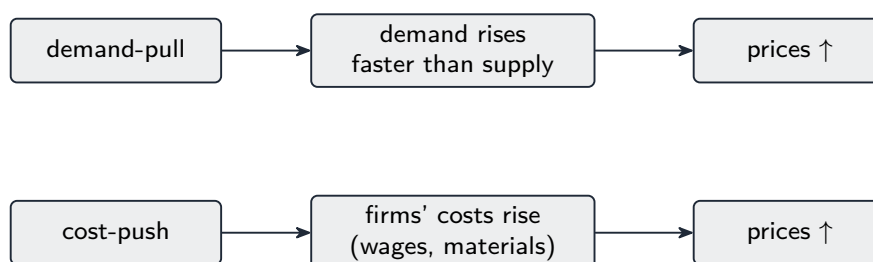
Micro-check. Which type of unemployment rises most in a recession? [1]

■ 3 Inflation

Inflation is a sustained rise in the general price level. Money then buys less – its **purchasing power** falls. It is measured by the **consumer price index** (CPI), the cost of a “basket” of everyday goods.

Two causes:

- **demand-pull inflation** – aggregate demand rises faster than supply (“too much money chasing too few goods”);
- **cost-push inflation** – firms’ costs rise (wages, raw materials), so they raise prices.



Micro-check. Inflation caused by rising wages and material costs is which type? [1]

Watch out: frictional unemployment = between jobs (short); structural = skills no longer match (an industry declines); cyclical = low demand in a recession (usually largest). Demand-pull inflation = demand rising too fast; cost-push = firms’ costs rising.

Practice

4.1 State what is meant by **economic growth**. [1]

4.2 Name the four phases of the **business cycle**, in order. [2]

4.3 State which type of unemployment each describes: (a) caused by a recession; (b) caused when an industry closes and skills no longer fit. [2]

4.4 State what happens to the **purchasing power** of money during inflation. [1]

4.5 State one difference between **demand-pull** and **cost-push** inflation. [2]

4.6 Challenge. A factory town's main industry closes, and the workers cannot find new jobs because their skills do not fit other work. Name this type of unemployment and explain it. [2]
