Economic Indicators and the Business Cycle

AP Macroeconomics · Vocabulary in context

Word	Example
circular-flow model /ˈsɜːkjʊlə fləʊ ˈmɒdl/	The **circular-flow model** shows money moving between households and firms.
Gross domestic product (GDP) /ɡrəʊs dəˈmestɪk ˈprɒdʌkt/	**Gross domestic product (GDP)** is the value of everything a country makes in a year.
consumption /kənˈsʌmpʃn/	**Consumption** is what households spend on goods and services.
investment /ɪnˈvestmənt/	Buying new machines for a factory is **investment**.
government purchases /ˈɡʌvənmənt ˈpɜːtʃɪsɪz/	Building a new road counts as **government purchases**.
net exports /net ˈekspɔːts/	**Net exports** are the value of exports minus the value of imports.
underground economy /ˌʌndəˈɡraʊnd ɪˈkɒnəmi/	Cash jobs that are never reported are part of the **underground economy**.
labor force /ˈleɪbə fɔːs/	The **labor force** includes people with jobs and people looking for work.
Frictional /ˈfrɪkʃənl/	**Frictional** unemployment happens while people move between jobs.
Structural /ˈstrʌktʃərəl/	**Structural** unemployment happens when workers' skills no longer fit the jobs.
Cyclical /ˈsaɪklɪkl/	**Cyclical** unemployment rises during a recession.

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natural rate of unemployment /ˈnætʃərəl reɪt ɒv ʌnemˈplɔɪmənt/	The **natural rate of unemployment** is the unemployment left when the economy is healthy.
full employment /fʊl emˈplɔɪmənt/	**Full employment** means nearly everyone who wants a job has one.
discouraged workers /dɪˈskʌrɪdʒd ˈwɜːkəz/	**Discouraged workers** have given up looking for a job.
Inflation /ɪnˈfleɪʃn/	**Inflation** makes the same shopping cost more each year.
price index /praɪs ˈɪndeks/	A **price index** shows how prices change over time.
consumer price index (CPI) /kənˈsuːmə praɪs ˈɪndeks/	The **consumer price index (CPI)** tracks the price of a basket of everyday goods.
Deflation /diːˈfleɪʃn/	**Deflation** means prices are falling.
Nominal GDP /ˈnɒmɪnl ˌdʒiː diː ˈpiː/	**Nominal GDP** uses this year's prices. GDP
Real GDP /rɪəl ˌdʒiː diː ˈpiː/	**Real GDP** removes the effect of rising prices. GDP
business cycle /ˈbɪznəs ˈsaɪkl/	A **business cycle** includes expansions and contractions in economic activity.
expansion /ekˈspænʃn/	During an **expansion**, more people find jobs.
peak /piːk/	The economy reached its **peak** just before the crisis.
contraction/recession /kənˈtrækʃn rɪˈseʃn/	During a **contraction/recession**, output and jobs fall.

Word	Example
✓ **trough** /trɒf/	The **trough** is the lowest point before the economy grows again.

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