Economic growth:

Any increase in the real GDP of a country.

Recession: It is the opposite of growth (a decrease in real GDP) which lasts at least 2 quarters (6 months).

Depression: It is the opposite of growth (a decrease in GDP) for a longer period of time (longer than 2 quarters).

Causes of growth:

1.) Discovery of natural resources

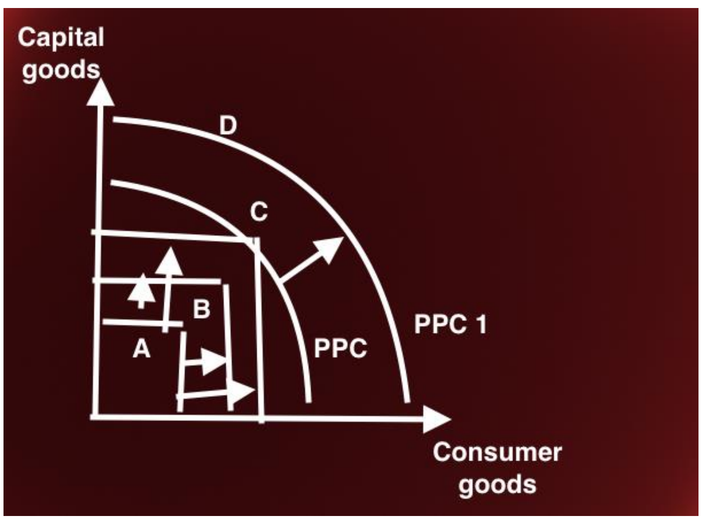
2.) Technological progress

3.) Investment in infrastructure

4.) Increasing quantity and quality of labor

5.) Reallocating resources

Economic growth on a PPC:



The points that represent growth from point A on this PPC would be point B, C, and D.

Ways to measure economic growth:

1.) Output method – Value of all final goods and services produced in your economy.

2.) Income method – Take the total income earned from all the factors of production. Measuring using the income method uses the factor payments and excludes transfer payments like social security checks, etc.

3.) Expenditure method – Calculate the total spending on goods and services by all the stakeholders in the economy. Measuring using the expenditure method includes spending from households (C), spending from firms (I), spending from governments (G), and spending done from the foreign sector (x-m).

The value calculated from all three methods should be the same.

NY = NE = NO

NY: National income

NE: National expenditure

NO: National output

GDP: The final market value of all the final goods and services produced in a country over a period of time.

GVA (gross value added): (Market value of a firm's goods and services) – (the value of the inputs used in production)

Nominal GPD -> market value of your goods and services

Real GDP -> Nominal GDP – inflation rate

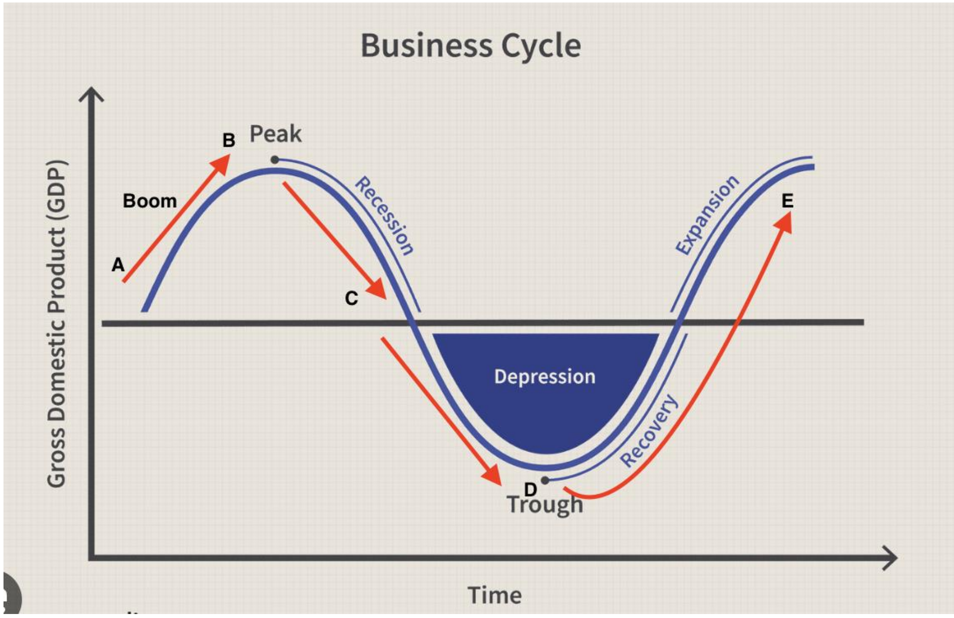
Achieving long-term goals:

You can achieve your long-term goals by increasing the potential output of the economy, which is done by increasing the quantity and quality of your factors of production. Consequently, the PPC will shift outwards leading to economic growth.

Negative economic growth:

Negative economic growth means that you are producing fewer goods and services.

The Economic/Business cycle:



A Boom is a peak, and from peak to peak is a full business cylce.

1.) Point A-> B is positive economic growth, hence RGDP increases, incomes increase, inflation rate increases, employment increases, and aggregate demand increases.

2.) Point B -> C is a recession, hence RGDP decreases, unemployment occurs, and incomes decrease.

3.) Point C -> D is a depression, hence RGDP decreases, unemployment increases, and incomes decrease.

4.) Point D is a slump where the RGDP decreases, unemployment increases, incomes decrease, and the inflation rate decreases.

5.) Point D -> E is a period of recovery for the economy, it has the same characteristics as the transition from point A to B.

Benefits of economic growth:

1.) More goods and services

2.) Increased employment opportunities and incomes

3.) Increased sales, profits, and business opportunities

4.) Low price inflation if output growth keeps pace with demand

5.) Increased tax revenue

6.) Improved living standards

Consequences:

1.) Technical progress may replace labor with machines -> structural unemployment

2.) Scarce resources are used up faster

3.) Increasing pollution and damage to the environment

4.) People are not necessarily better off