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ECONOMICS & PERSONAL FINANCE RESOURCES FOR K-12

Visual 1: Economic Data Review

How is Real Gross Domestic Product related to the business cycle?

As the economy expands and contracts due to changes in overall spending, those changes are reflected in Real GDP data.

- Increasing Real GDP means the economy is expanding, or growing.
- Decreasing Real GDP means the economy is contracting.

How are employment and unemployment related to the business cycle?

- As an economy expands, firms tend to hire more employees to increase their production of goods and services. As more and more people find employment, the unemployment rate decreases.
- During recessions, firms tend to reduce their production levels and also the number of workers they employ. As more people lose their jobs, the unemployment rate rises.

How is inflation related to the business cycle?

Economists say that inflation is the result of “too much money chasing too few goods.” This means that the spending of consumers outpaces the ability of an economy to produce goods.

The Federal Reserve, the Central Bank of the United States, has a Congressional mandate to provide price stability for this U.S. economy. In practical terms, the Fed uses its policy tools to keep inflation near 2 percent.

- Inflation can rise above the Fed’s 2 percent target during an economic expansion if excess spending pushes economic growth beyond its potential. In this case the excess demand for goods and services puts “inflationary pressures” on the economy.
- Inflation can fall below the Fed’s 2 percent target when the spending is weak. This is likely to happen when the economy is in recession.

Warning: Inflation is not entirely business cycle related – inflation can spike during a recession.