AP MACROECONOMICS • EXERCISE SHEET

2.7 Business Cycles

Name: ______________ Class: __________ Date: ____________ **Total: 9 marks**

KEY WORDS output gap 产出缺口 • recessionary gap 衰退缺口 • inflationary gap 通胀缺口 • expansion 扩张 • business cycle 经济周期

Objective

Build the skills to answer exam questions on **business cycles**.

You must be able to:

- identify the four phases of the **business cycle 经济周期**: expansion, peak, contraction, trough
- relate movements in **real GDP** to unemployment and inflation over the cycle
- distinguish the **output gap 产出缺口** between actual and potential GDP
- define a **recessionary gap 衰退缺口** and an **inflationary gap 通胀缺口**

1 Worked examples

Study these first. Each one shows the method for a question type used later.

■ The four phases

Expansion (rising output) → **peak** → **contraction / recession** (falling output) → **trough** → recovery.

■ Over the cycle

In an **expansion** unemployment falls and inflation tends to rise; in a **recession** the reverse happens.

■ Output gaps

The **output gap** is actual minus potential real GDP. Below potential is a **recessionary gap**; above potential is an **inflationary gap**.

2 Practice

2.1 Name the four phases of the business cycle. [2]

2.2 Define a recessionary gap. [1]

2.3 State what happens to unemployment during an expansion. [1]

3 Exam-style questions

3.1 The lowest point of the business cycle is the [1]

- **A** peak
- **B** trough
- **C** expansion
- **D** boom

3.2 An inflationary gap occurs when actual GDP is _________ potential GDP. [1]

- **A** below
- **B** above
- **C** equal to
- **D** unrelated to

3.3 An economy's actual real GDP is below its potential.

(a) Name this type of output gap. [1]

(b) State what is likely to be high in this phase. [1]

(c) Name the phase of the business cycle. [1]

Solutions

2.1 expansion, peak, contraction (recession), trough.

2.2 the gap when actual real GDP is below potential (full-employment) GDP.

2.3 it falls.

3.1 **B**.

3.2 **B**.

3.3 (a) a recessionary gap. (b) unemployment. (c) contraction / recession.