

GRADE 11 STUDY GUIDE | 2025

Macroeconomics -- GDP and Business Cycle

Economics

1. Measuring Economic Activity -- GDP

GDP (Gross Domestic Product): total monetary value of all final goods and services produced **WITHIN** a country in a year

GNI (Gross National Income): GDP + income earned by residents abroad - income earned by foreigners locally

- Expenditure approach: $GDP = C + I + G + (X - M)$ [consumption + investment + government + net exports]
- GDP per capita: $GDP / \text{population}$ (measure of average standard of living)
- Real GDP: GDP adjusted for inflation; allows comparison across years
- Nominal GDP: GDP at CURRENT prices; does not account for inflation

2. Business Cycle

The business cycle shows recurring fluctuations in economic activity over time. The four phases:

- EXPANSION (recovery/boom): GDP rising; employment increasing; inflation rising; consumer confidence high
- PEAK (upper turning point): maximum economic activity; full employment; high inflation
- CONTRACTION (recession): GDP falling for 2+ consecutive quarters; unemployment rising; deflation risk
- TROUGH (lower turning point): minimum activity; maximum unemployment; low inflation

KEY: RECESSION: two or more consecutive quarters of negative GDP growth. DEPRESSION: severe, prolonged recession (rare -- e.g. 1930s Great Depression).

3. Indicators of Economic Activity

Leading Indicators: predict future trends

- Share prices
- Building plans approved
- Business confidence index
- Consumer confidence index

Coincident Indicators: current state of economy

- GDP
- Industrial production

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Retail sales

- Payroll employment

Lagging Indicators: confirm trends after the fact

- Unemployment rate
- Prime interest rate
- CPI (Consumer Price Index)
- Manufacturing inventory levels

4. Inflation

Inflation: general, sustained increase in price level

CPI: measures average change in prices of a basket of goods and services

- Demand-pull inflation: too much money chasing too few goods (economy is overheating)
- Cost-push inflation: increase in production costs pushes prices up (e.g. rising oil/wages)
- Hyperinflation: extremely rapid inflation; destroys purchasing power (Zimbabwe 2008)
- Stagflation: high inflation + high unemployment + low growth (worst combination)