Economic growth and business cycles

Economic growth

• Annual rate of increase in total production or income

• Usually measured by rate of growth in real GDP or real GDP per capita

• GDP not a perfect measure
  – non-market production (valuation problem)
  – unrecorded activity (informal sector)
  – data revisions (data initially provisional)
  – imperfect measure of welfare (“bads”, externalities)
  – does not reflect distribution of income
Business cycles

- Pattern of expansion and contraction in economic activity

- **Stages**
  - upswing (boom)
  - peak
  - downswing (recession)
  - trough

*The business cycle*
• **Causes**
  – exogenous factors (classical view)
  – endogenous factors (Keynesian view)
  – random factors (structuralist or institutionalist view)

  *Figure: Different views on business cycles*

• **Indicators**
  – leading indicators
  – reach turning point before economy at large

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**Sources of economic growth**

• **Supply factors**
  – quantity and quality (productivity) of factors of production
  – natural resources (mixed blessing)
  – labour (quantity and quality, human capital)
  – capital (quantity and quality, technology)
  – entrepreneurship (the driving force)
• **Demand factors**
  - domestic demand ($C, I, G$)
  - exports
  - import substitution

• **Fundamental causes (inter alia)**
  - institutions
  - geography
  - culture