# The Business Cycle — Worksheet

## Part A — Phases, drivers and indicators

This worksheet builds the skill of describing the business cycle and reading its phase from macroeconomic indicators — a foundation for the AE, AD/AS and policy lessons that follow.

> When identifying a phase, cite the **direction** of at least two indicators (e.g. "GDP falling *and* unemployment rising"). One indicator on its own is rarely enough to be sure of the phase.

### Phases and drivers

1. On the axes below (real GDP against time), sketch a business cycle around a rising long-run trend. Label an expansion, a peak, a contraction and a trough.

2. Explain how a rise in aggregate demand can move the economy from a trough into an expansion. Refer to at least one component of aggregate demand.

### Indicators

3. Complete the table by describing the typical movement of each indicator in each phase.

| Indicator | Expansion / peak | Contraction / trough |
|---|---|---|
| Real GDP growth | | |
| Unemployment rate | | |
| Inflation rate | | |
| Business confidence | | |

4. Distinguish between a leading and a lagging indicator, giving one example of each.

## Interpretation

5. An economy reports: real GDP growth −0.4% then −0.6% in consecutive quarters; unemployment up from 4.0% to 5.1%; inflation easing. Identify the phase of the cycle and justify your answer with the data.

6. Explain why a slowdown in the *rate* of GDP growth is not the same as a contraction.