

7.4: Putting It Together- Inflation and Unemployment

This module explained that the economy goes through cycles of speeding up and slowing down. Recession doesn't just mean a slowdown in the economy (a decrease in economic growth), but rather negative economic growth, a decrease in real GDP over at least six months, so that the economy is actually producing fewer goods and services than in did before.

Recessions happen on average about once every five years, and they tend to average one year of recession and four years of expansion. Cyclical unemployment increases during recession and decreases during expansion. The measured unemployment rate never gets to zero, because of frictional unemployment, the time it takes for employers and job seekers to find each other, and because of structural unemployment, those who do not have jobs because of lack of skills. The economy is close to full employment when the measured rate reaches perhaps five percent.

Inflation makes it harder to determine what products are relatively cheap or expensive. They also redistribute income arbitrarily. Fortunately, the U.S. economy has not experienced significant inflation since the early 1980s.

Watch It

Using what you've learned, you should be able to judge the current state of the economy. Here is one judgment from 2014:

An interactive or media element has been excluded from this version of the text. You can view it online here: <http://pb.libretexts.org/mlum/?p=339>

Now that you know the most important economic indicators, the rest of this text will explain what causes them to do what they do and how they are related to one another.

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