

Chapter 12

Objectives

- Define recession, expansion, depression, expansion, boom, peak, and trough
- Identify the periods and characteristics of historically important recessions and expansions
- Explain unemployment and inflation patterns during recessions and expansions
- Define potential output, output gap, recessionary gap, and expansionary gap
- Identify the causes of output gaps
- Define the natural rate of unemployment and its relationship to cyclical unemployment
- Define Okun's Law
- Calculate the effect of cyclical unemployment on the output gap
- Explain how price changes eliminate output gaps in the long run