

Understanding Canada's Economic System and The Business Cycle

Understanding Canadian Business p58-63

Key Economic Indicators - GDP

- Gross Domestic Product – is the total value of final goods and services produced in a country in a given year.
- If GDP growth slows or declines, there are often many negative effects on business.

What can account for increases in GDP?

- A major influence on the growth of GDP is how productive the workforce is – that is, how much output workers create with a given amount of input.
- A strong economy usually leads to a high standard of living for Canadians. The term standard of living refers to the amount of goods and services people can buy with the money they have. Eg homes, cars and trips.

Quality of Life

- Refers to the general well-being of a society in terms of political freedom, a clean natural environment, education, health care, safety, free time and everything else that leads to satisfaction and joy.

Productivity in Canada

- Productivity is measured by dividing the total output of goods and services of a given period by the total hours of labour required to produce them.
- An increase in productivity means that a worker can produce more goods and services in the same period of time than before, usually through the use of machinery or other equipment.

Unemployment Rate

- Refers to the percentage of the labour force that actively seeks work but is unable to find work at a given time.

Types of Unemployment

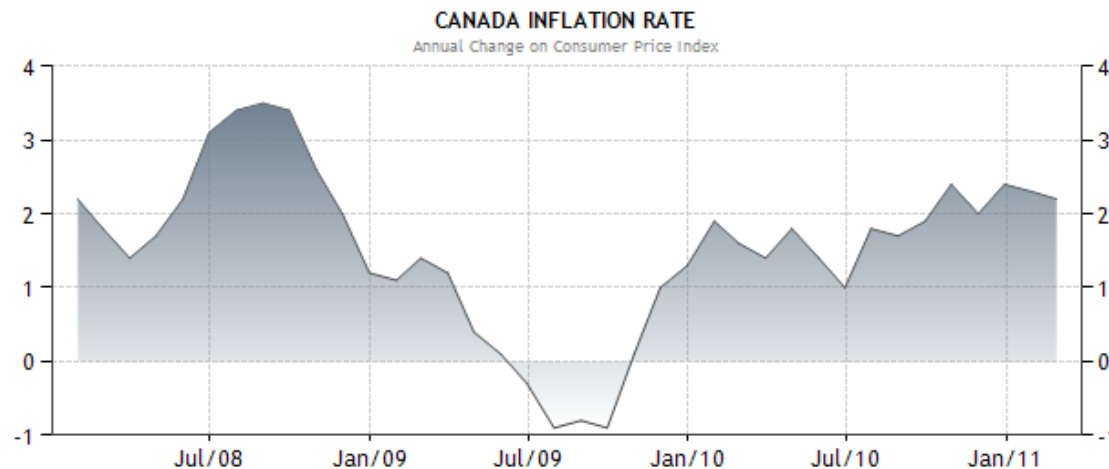
- Frictional Unemployment – refers to those people who have quit work because they didn't like the job, the boss or the working conditions and who haven't yet found a new job.

More Types of Unemployment

- Structural Unemployment – refers to unemployment caused by the restructuring of firms or by a mismatch between the skills of job seekers and the requirements of available jobs.
- Cyclical unemployment – occurs because of a recession or similar downturn in the business cycle.
- Seasonal unemployment occurs where demand for labour varies over the year, as with harvesting of crops.

The Price Indexes

- Help measure the health of the economy by measuring the levels of inflation, disinflation, and stagflation.
- Inflation refers to the general rise in the prices of goods and services over time.



Disinflation

- A situation in which price increases are slowing (the inflation rate is declining)
- Deflation – a situation in which prices are declining. This occurs when countries produce so many goods that people cannot afford to buy them all.
- Stagflation – a situation in which the economy is slowing but prices are going up regardless.

Consumer Price Index (CPI)

- Is a monthly statistic that measures the pace of inflation or deflation. To calculate the CPI, costs of a “basket” of about 600 goods and services for an average family – including housing, food, apparel, medical care and education are calculated to see if they are going up or down.
- The CPI is an important figure because it affects nearly all Canadians, either directly or indirectly. Eg CPP and Old Age security and interest rates are based on it.

The Business Cycle (Economic Cycle)

- Are the periodic rises and falls that occur in economies over time.
1. Economic boom – business is booming. Periods of economic boom bring jobs, growth and economic prosperity.
 2. Recession – is two or more consecutive quarters of decline in the GDP. In a recession prices fall, people purchase fewer products and businesses fail.

The Business Cycle (Continued)

3. Depression is a severe recession usually accompanied by deflation. Business cycles rarely go through a depression phase.
4. Recovery occurs when the economy stabilizes and starts to grow.