

Econ Club Discussion:
*The 2008-2009 Deep Fall
of the American Economy*

March 3, 2009

The Economy's Decline in Perspective

- Macroeconomists separate the evolution of the overall economy, as represented by real GDP, between short- and long-run movements.
- The GDP is a good thermometer of the economy both in the short and the long run
- In a long-run view, economies grow because of:
 - The accumulation of human and physical capital
 - The introduction of new technologies
 - The growth of the work force.
- The trend of GDP is what matters in this long-run view.
- In the short run, however, we are concerned about the fluctuations of GDP around this trend.

Figure 1: Real GDP; Quarterly Data 1947-2008; billions of chained (2000) dollars

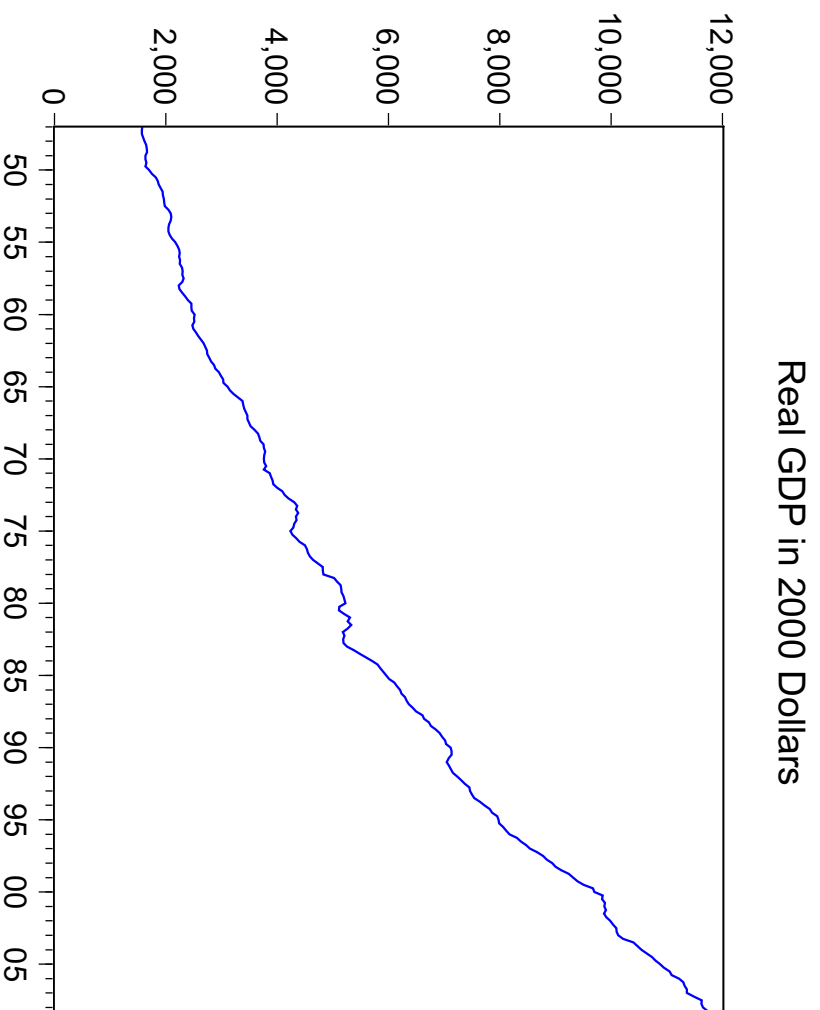


Figure 2: Log of Real GDP and its Trend

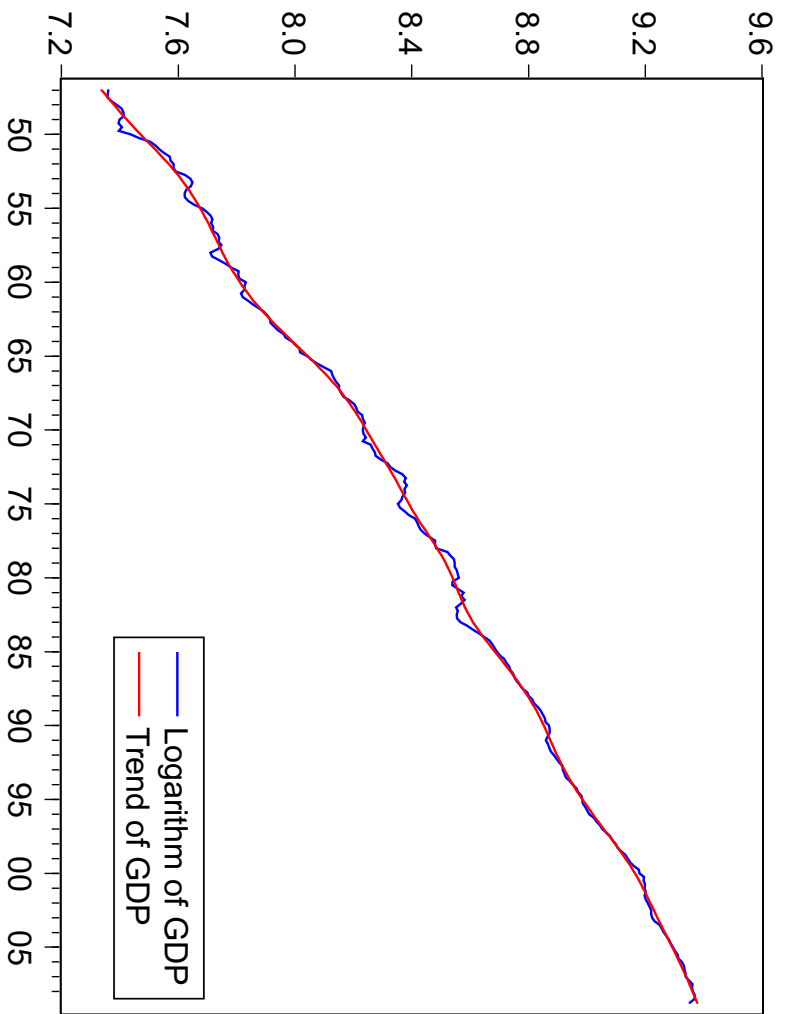
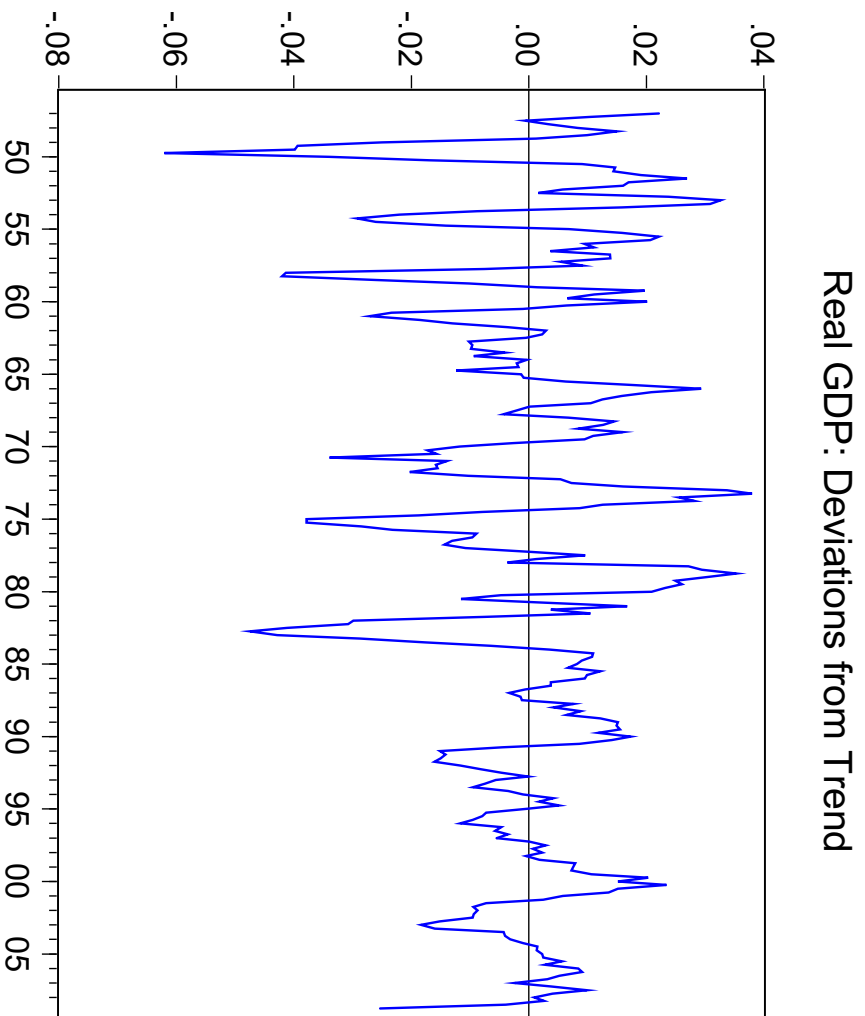


Figure 3: Business Cycles, Quarterly Data; 1947-2008



Review: The Fundamental Macroeconomic Equation

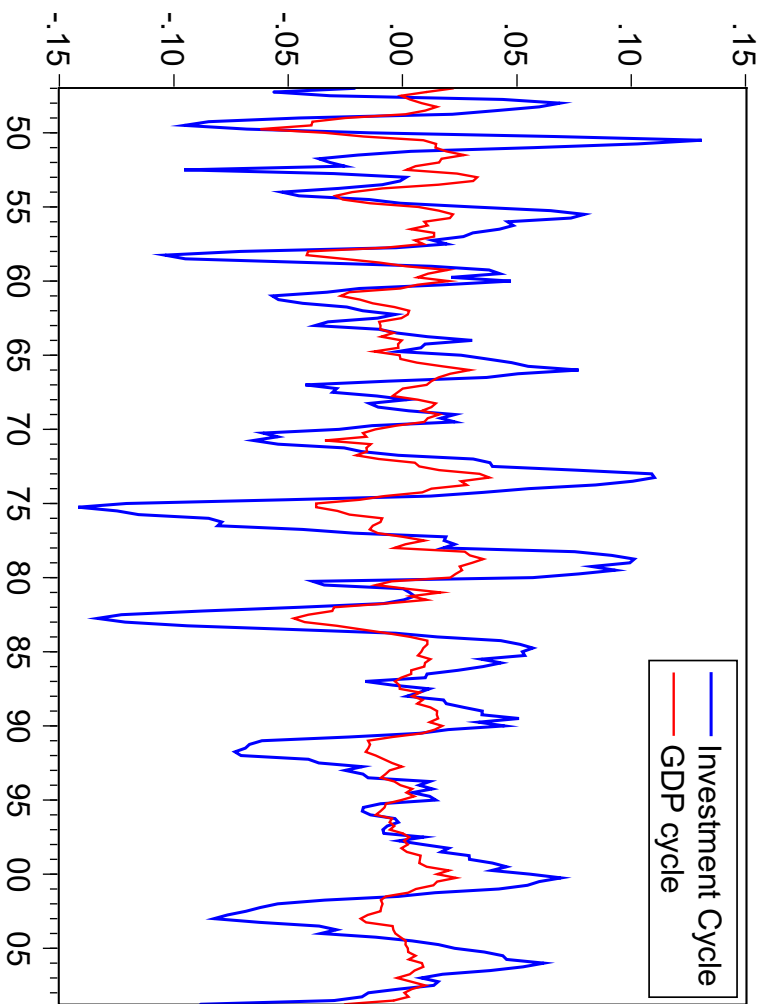
- According to the national accounts:

$$\text{GDP} = AE = C + I + G + (X - M)$$

	<u>Value (bill. \$)</u>	<u>Share in GDP</u>
GDP	14,265	-
C	10,051	70.5%
I	1,996	14.0%
G	2,883	20.2%
X	1,831	12.8%
$X - M$	-671	-4.7%

- When GDP falls during a recession, consumption and investment typically fall as well.
- In the current recession, next exports are falling as well.
- Fourth quarter of 2008:
 - GDP: ↓ by 6.2%
 - C : ↓ by 4.3%
 - I : ↓ by 20.8%
 - G : ↑ by 1.6%
 - X : ↓ by 23.6%
 - M : ↓ by 16.0%

Figure 4: Business Cycles. Cycles of GDP and Investment



The Economic Downturn from the Econ 102 Perspective

- In Econ 102, one learns that there are key factors influencing each component of the AE function and the AD curve:
 - **Consumption**
 - * Disposable income
 - * Wealth
 - * Interest rates and the availability of credit
 - * Expectations about the future.
 - **Investment**
 - * Change in the level of sales
 - * Interest rates and the availability of credit
 - * Business confidence and expectations about the future.
 - **Exports**
 - * Foreign and domestic income and the exchange rate