Notes on Chapter 4

Aggregate Demand and Supply:
We discussed business cycle and identified different phases of the business cycle. We identified, Prosperity, Peak (Boom), Downturn, Recession, Trough and Recovery. We also showed that a bad and prolonged recession is known as depression. We also discussed the Trend Line and how it measures economic growth.

Measuring the National Economy:
We defined Gross Domestic Product (GDP) and discussed how it is different from Gross National Product (GNP). We distinguished between nominal GNP/GDP and real GNP/GDP. We discussed the Consumer Price Index (CPI) and the GDP Deflator and how to use these indexes to convert nominal GNP/GDP into real GNP/GDP.

We discussed the Horizontal, Upward-sloping and the Vertical segments of the Aggregate Supply curve. In our discussion of the Aggregate Demand curve, we discussed the Real Wealth Effect, The Interest Rate Effect and the International Trade Effect. We also discussed the factors which causes shifts in the aggregate demand and supply curves. We showed macroeconomic equilibrium and also discussed the equilibrium, unemployment and inflation scenario or 1930s Great Depression, The Vietnam War and The OPEC situation. In the process we discussed the difference between Demand Pull and Cost Push Inflation. We also discussed Stagflation and explained why that could be the worst situation for an economy. We also talked about the fiscal policy options in the hand of the government to control the aggregate demand and take the economy in the desired direction.