

Topic 2: Labor and Unemployment (Chapter 26)*Krugman Module: 2 (Business Cycle)**Krugman Module: 12 & 13***Objectives:**

1. Explain what is meant by a business cycle.
2. Describe the four phases of an idealized business cycle.
3. Identify two types of non-cyclical fluctuations in business activity.
4. Describe how innovation and/or random events might cause business cycles.
5. Explain why business cycles affect capital and consumer durable goods industries more than non-durable goods and service industries.
6. Describe how the Bureau of Labor Statistics (BLS) measures unemployment.
7. Evaluate strengths and limitations of BLS unemployment statistics.
8. State causes of frictional, cyclical, and structural unemployment.
9. Identify the full employment or natural rate of unemployment.
10. Identify the economic costs of unemployment and the groups that bear unusually heavy unemployment burdens.

Key Terms:

Business Cycle	Peak
Recession	Trough
Expansion	Labor Force
Unemployment Rate	Part-time Employment
Discouraged Workers	Frictional Unemployment
Structural Unemployment	Cyclical Unemployment
Full Employment/Natural Rate of Unemployment	Potential GDP
GDP Gap	Okun's Law

Key Conceptual Questions

1. What types of firms and industries are most affected by business cycles? Least affected?
2. Define who is included in the labor force
3. What are the problems with measuring employment?
4. Define and calculate the unemployment rate
5. Tell what happens to the unemployment rate in the US in recessions and expansions
6. List the sources of unemployment
7. List and describe the four types of unemployment
8. Identify the relationship between unemployment and the GDP gap (Okun's Law)